



Gautam Duggad

✉ Gautam.Duggad@motilaloswal.com

Jayant Parasramka

✉ Jayant.Parasramka@motilaloswal.com

The Eagle Eye

September 2021

INDIA OUTPERFORMS DM/EM

- ❖ India outperforms EM index; posts highest gains in Aug'21
- ❖ Nifty outperforms Midcap/Smallcap index for first time in CY21
- ❖ Defensives lead gainers on IT/Consumer outperformance; Bajaj Twins leads Nifty gains

MARKETS

- ❖ Global equity Mcap up 75% to USD119t from lows of Mar'20
- ❖ Nifty moves from 16K to 17K in 19 trading days; HDFCB, RIL, TCS contribute 50% to the 1000 points movement from 16k to 17k.

EARNINGS

- ❖ Big getting bigger: Top 100 companies' EBITDA margins rise 500bps in FY21
- ❖ 1QFY22: In line with expectations | Cyclical lead earnings growth | Nifty FY22E EPS unchanged at INR732

ECONOMY

- ❖ Real GDP growth in-line at 20.1% YoY, aided by low base
- ❖ Nominal GDP grows 31.7% YoY in 1QFY22 v/s 22.3% YoY contraction in 1QFY21
- ❖ Fiscal deficit at 21% of BE over Apr-Jul'21; rainfall in deficit over June-Aug'21

HIGH FREQ. INDICATORS AND COVID

- ❖ GST collections down 4% MoM to 1.12t
- ❖ Manufacturing PMI declines to 52.3
- ❖ Vaccination pace picks up in Aug'21; 680M doses administered cumulatively

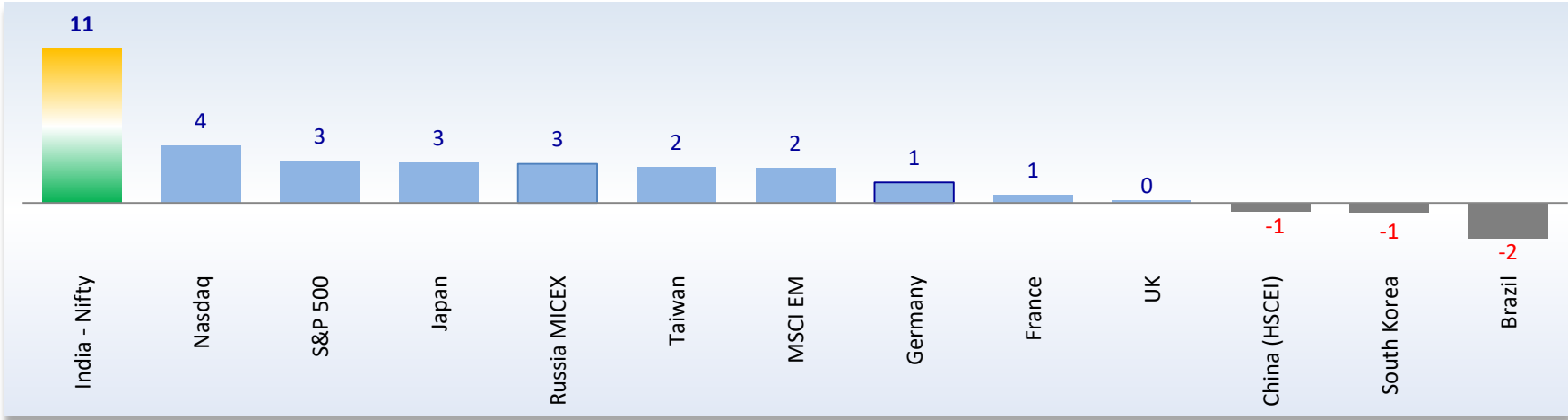
VALUATIONS, FLOWS

- ❖ Mcap-to-GDP ratio at 111%, highest since 2007
- ❖ Nifty trading at premium to LPA on P/E and P/B basis
- ❖ IT and Consumer valuations at 15-year highs

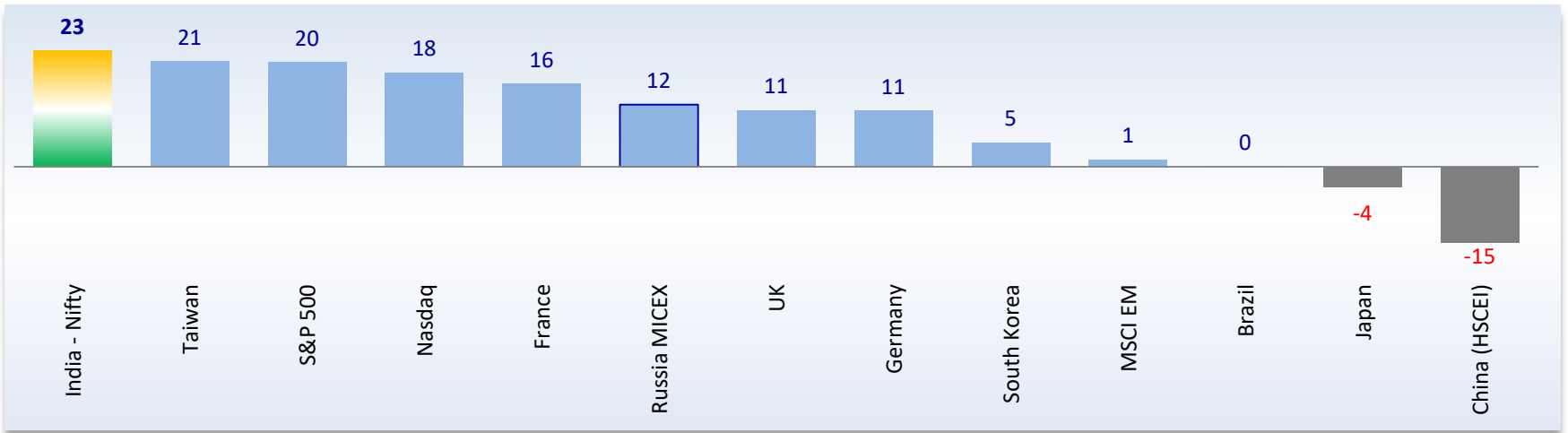
CONTENTS

India outperforms in Aug'21 and YTD'21

World equity indices (MoM) in USD terms (%)



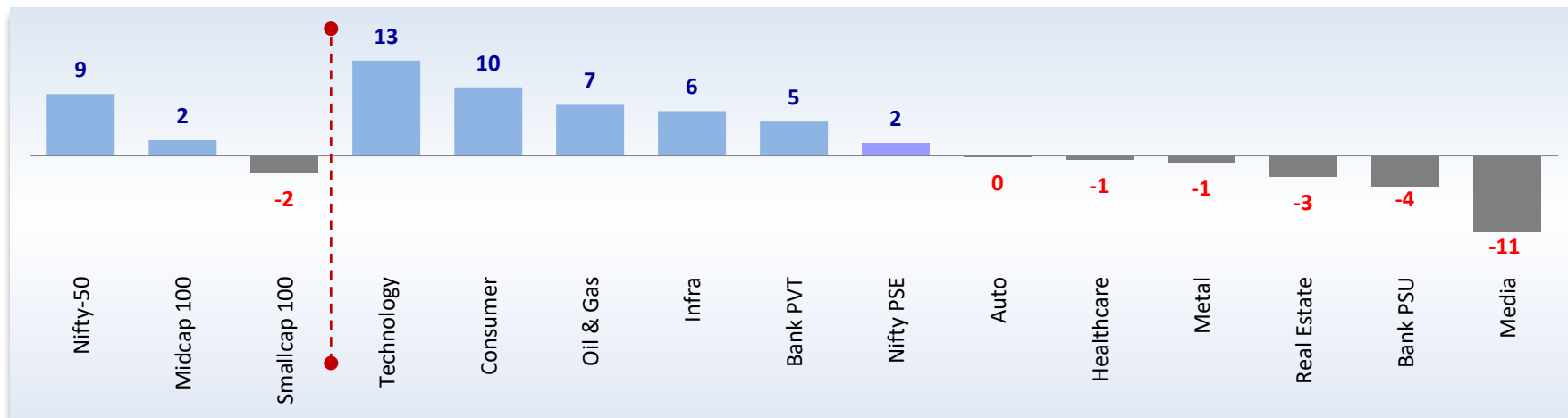
World equity indices (CY21 YTD) in USD terms (%)



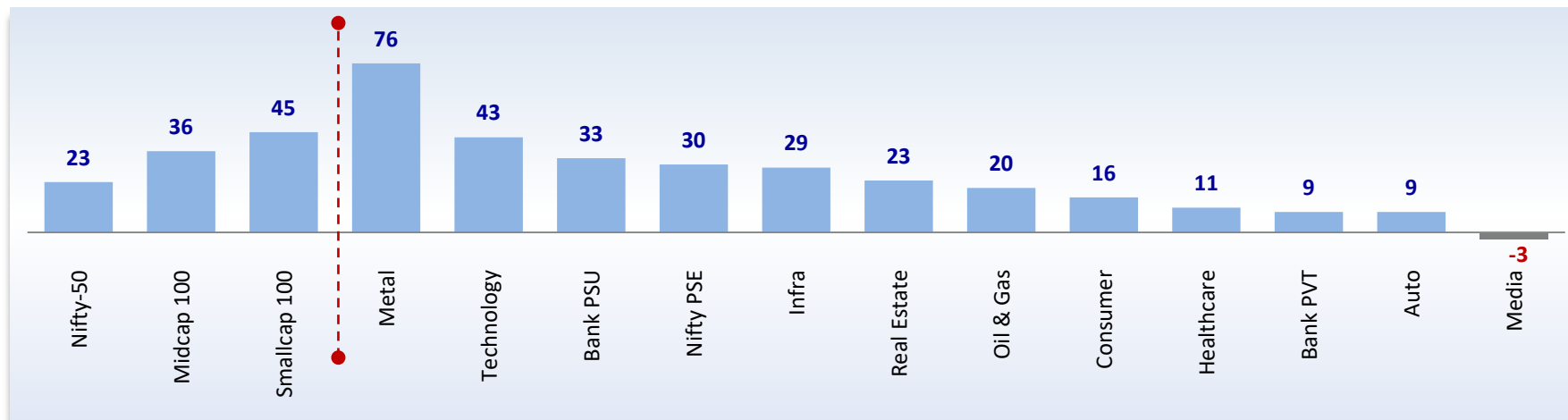
As of 31 Aug'21

Nifty outperforms Mid/Small-caps first time in CY21

Sectoral performance MoM (%)



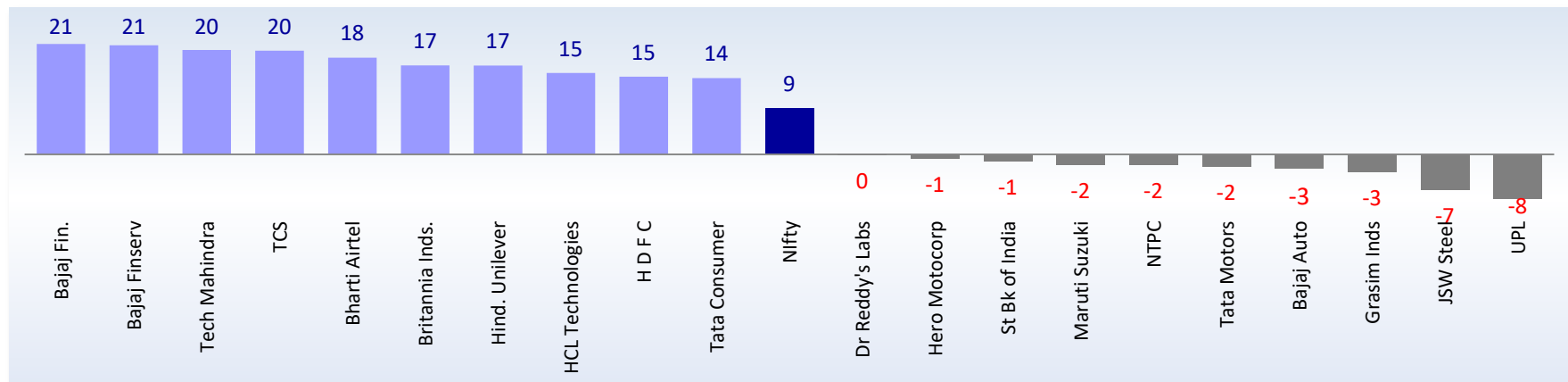
Sectoral performance in CY21 YTD (%)



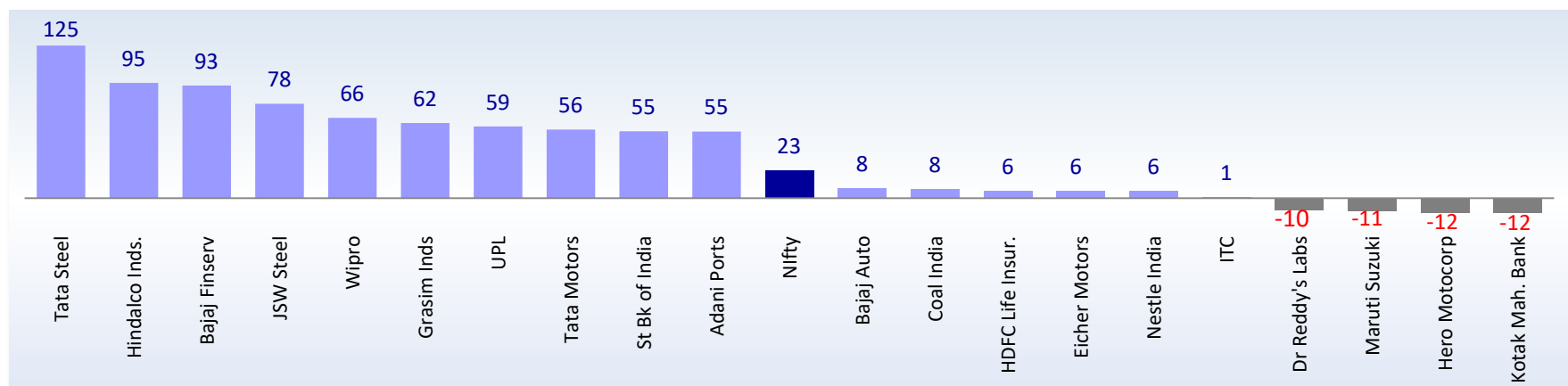
Broad-based gains in Nifty constituents; IT, Consumer lead

- ❖ 40/50 Nifty companies posted gains in Aug'21. Bajaj Twins outperformed during the month, while Defensives made a comeback.
- ❖ In CY21YTD, Metals continues to lead outperformance, while Auto remains a laggard.

Best and worst Nifty performers (MoM) in Aug'21 (%) – Bajaj Twins, IT lead gainers



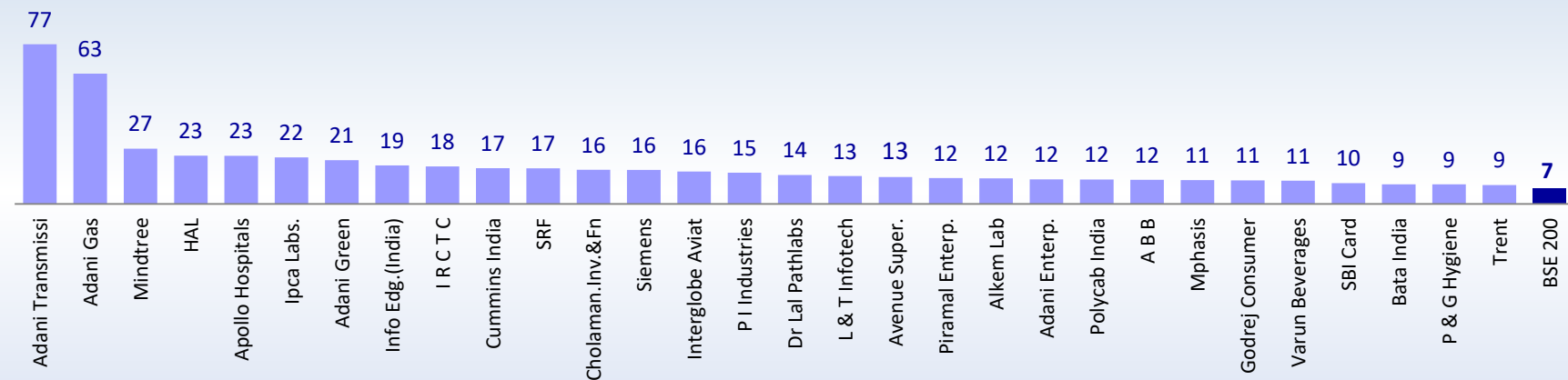
Best and worst Nifty performers (YoY) in CY21 YTD (%) – global cyclicals lead outperformance



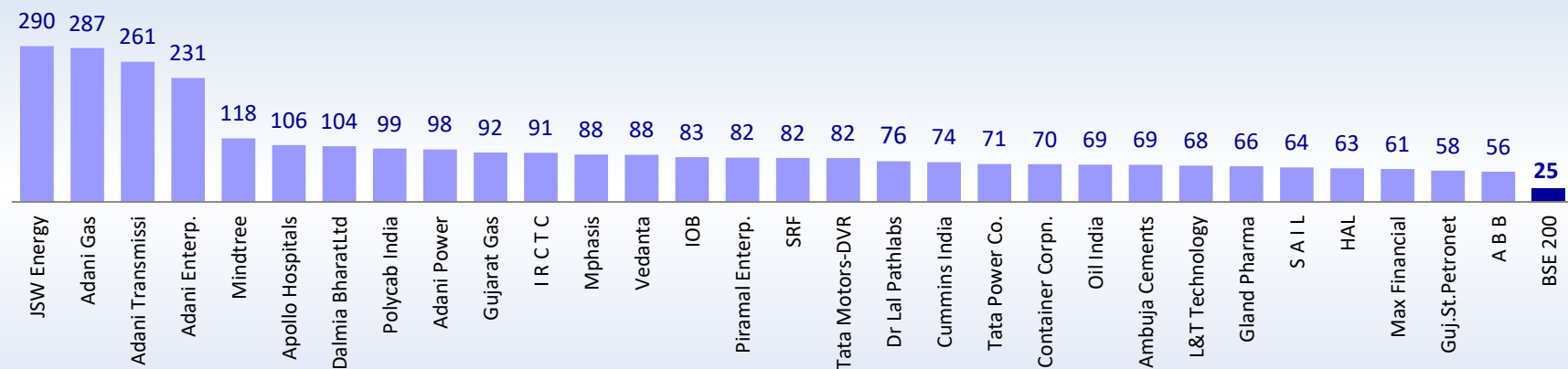
59% of BSE-200 constituents post gains in Aug'21

- ❖ 59% of BSE-200 constituents gained in Aug'21. Adani Transmission / Adani Gas gained by 77%/63% MoM.
- ❖ In CY21YTD, 46 companies have gained more than 50%, while 8 companies have gained 2x.

Top gainers from BSE-200 pack on MoM basis (%)*



Top gainers from BSE-200 pack in CY21YTD (%)*

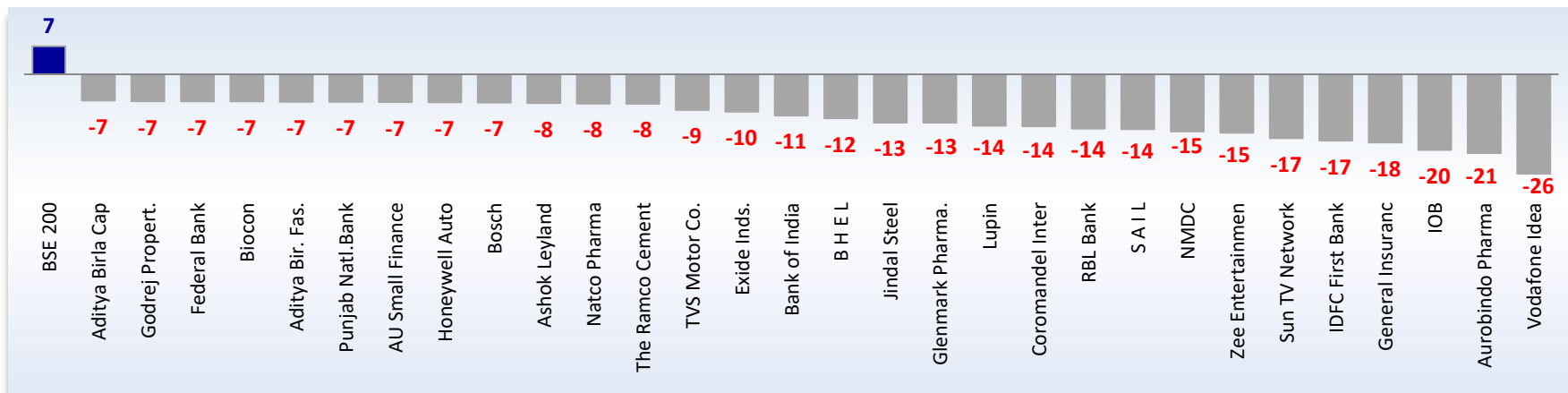


*List excludes Nifty companies

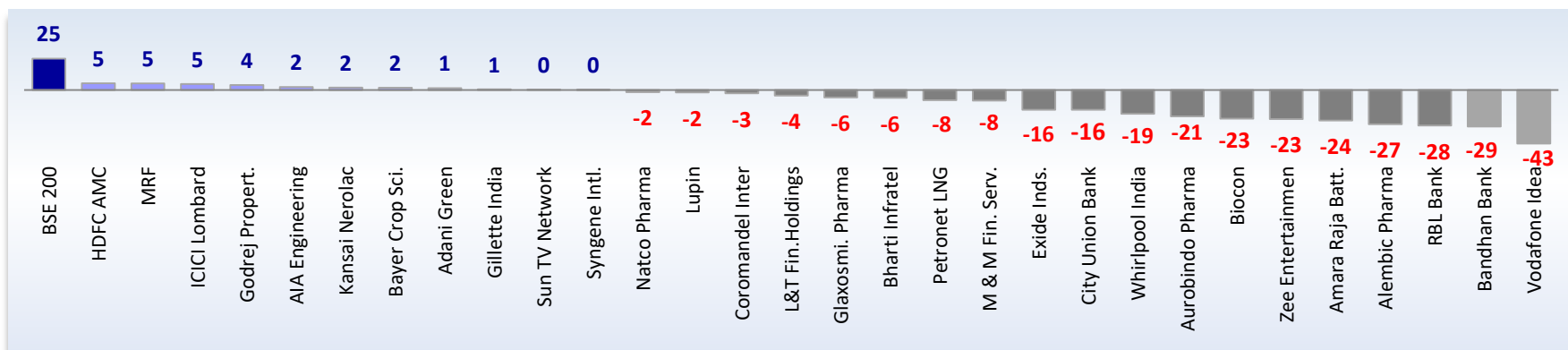
41% of BSE-200 constituents decline

- ❖ 41% of BSE-200 companies declined in Aug'21. Vodafone Idea, Aurobindo Pharma, and IOB declined by more than 20%.
- ❖ In CY21YTD, 23 companies have posted declines – Vodafone Idea, Bandhan Bank, RBL Bank, Alembic Pharma, Amara Raja, Zee, Biocon, and Aurobindo Pharma have declined more than 20%.

Biggest laggards among BSE-200 constituents on MoM basis (%)*



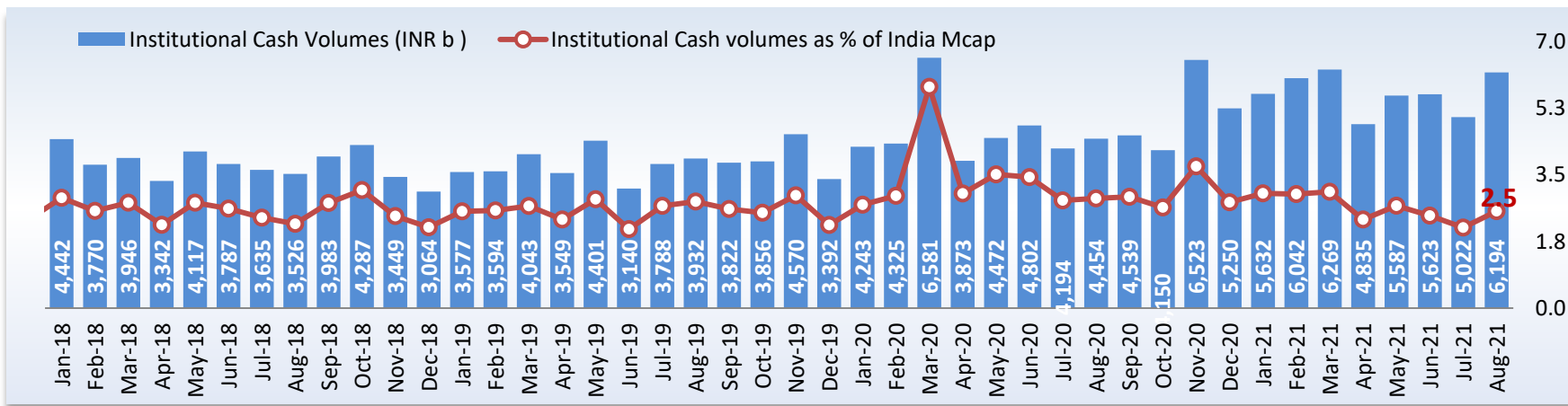
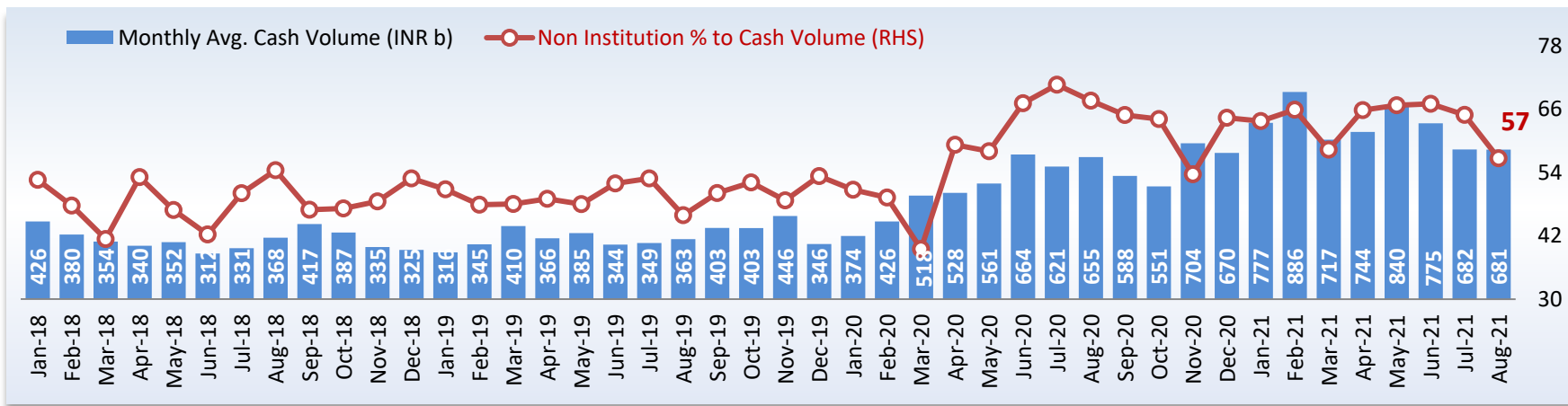
Biggest laggards among BSE-200 constituents in CY21YTD (%)



*List excludes Nifty companies

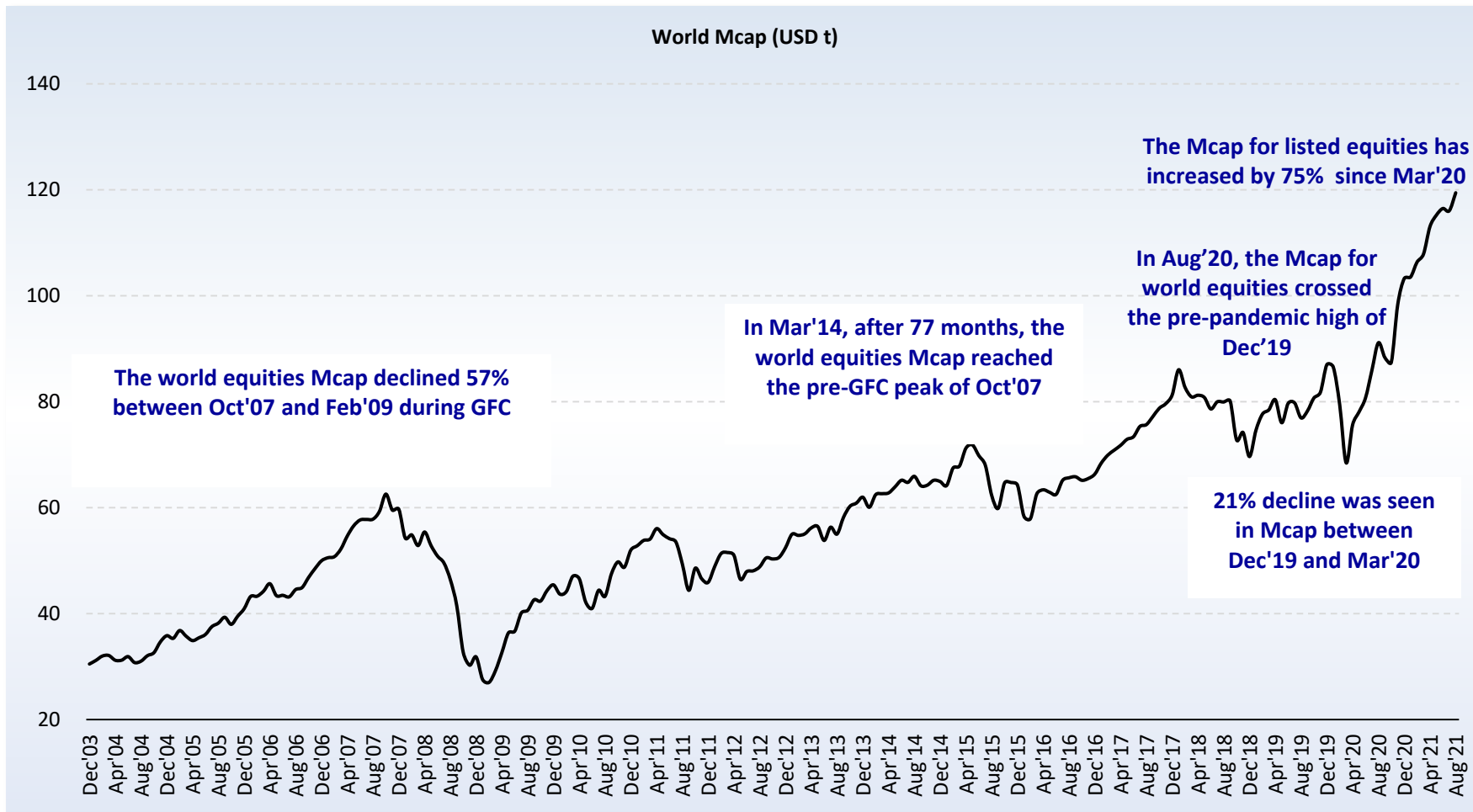
Average daily cash volumes flat MoM; Non-Insti participation down

- ❖ Average daily cash volumes were flat MoM at INR681b in Aug'21. Non-Institutional participation was down to 57% from 65% in previous month.
- ❖ Monthly Institutional cash trading volumes were up MoM to INR6.2t, highest in five months.



World Mcap increases 75% since Mar'20

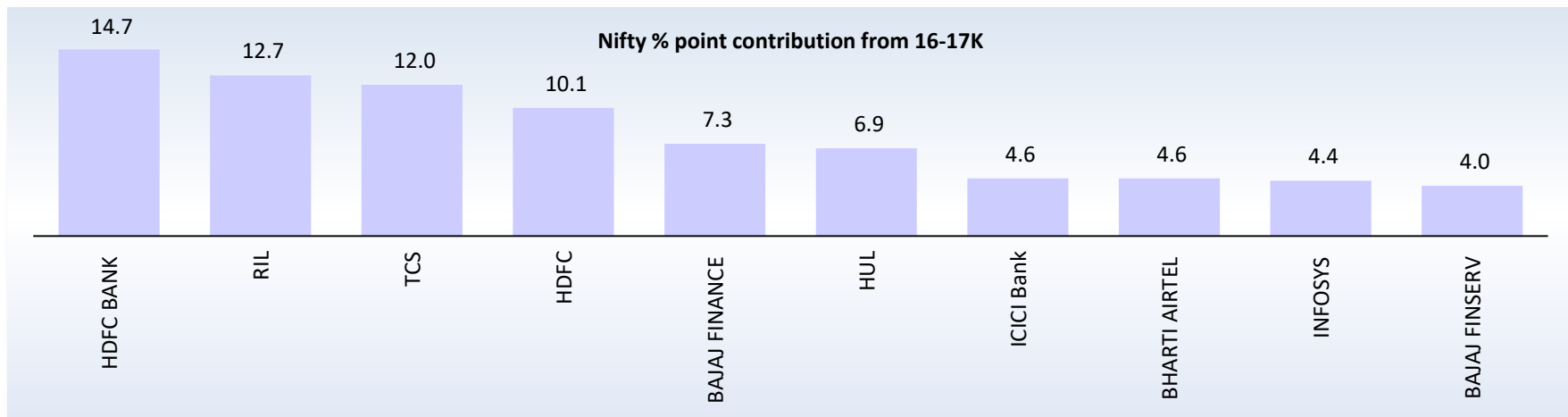
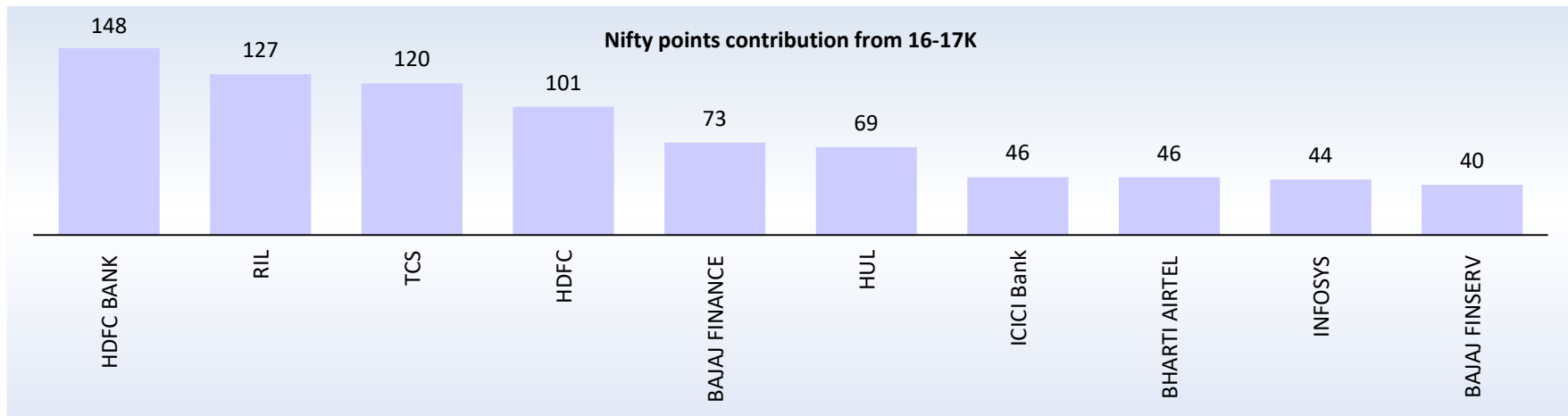
- ❖ The world Mcap has increased by 75% since the lows of Mar'2020 and exceeded USD119t.
- ❖ It took 77 months for world equities to reach the same pre-GFC peak after GFC was behind.



Source: Bloomberg, MOFSL. As of 31 Aug'21

Nifty scales 'Peak 17K' in 19 trading days

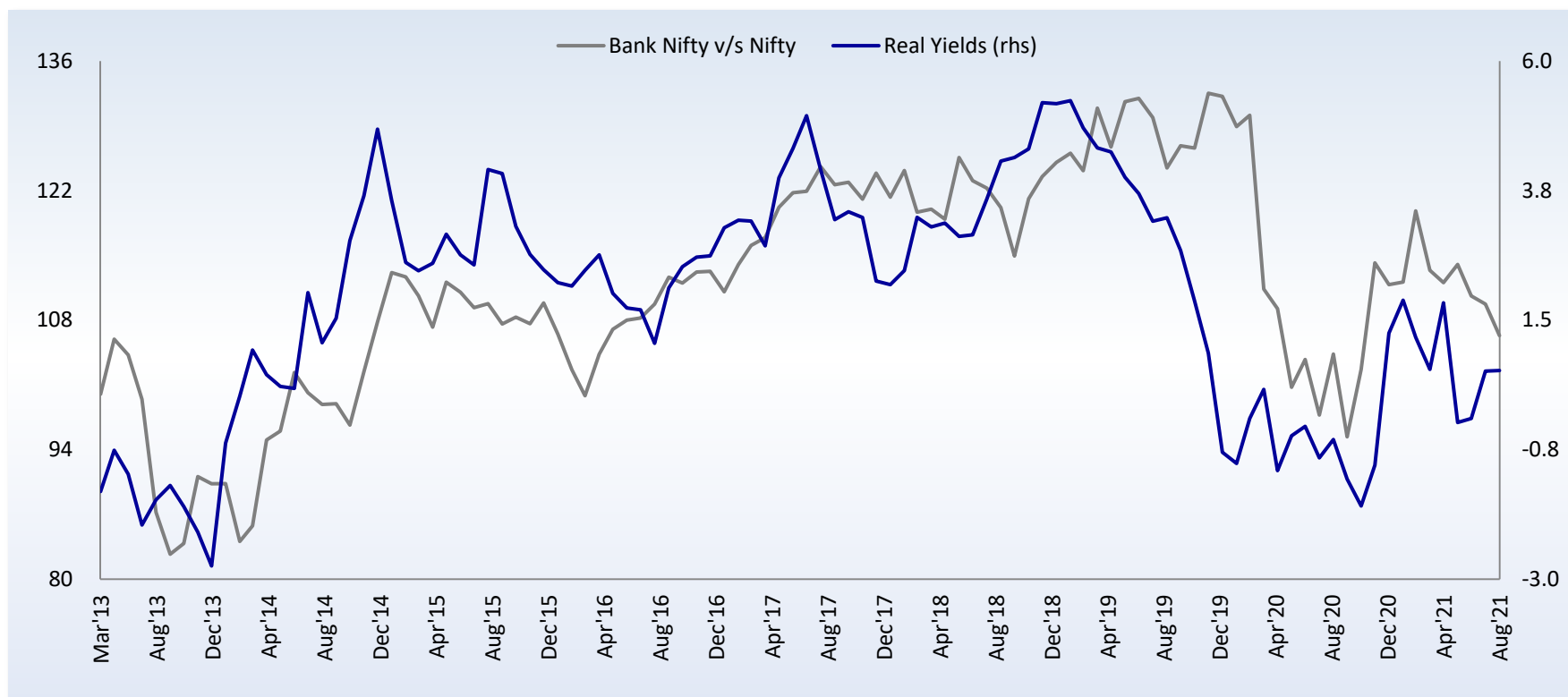
- ❖ The Nifty moved from 16K to 17K within 19 trading days, one of the fastest 1000 point milestone in its journey.
- ❖ HDFC Bank, RIL, and TCS contributed 50% of the 1000 points move from 16k to 17k.



Source: Bloomberg, MOFSL. As of 31 Jul'21

Banks Nifty underperforms Nifty; Closely tracking real yields

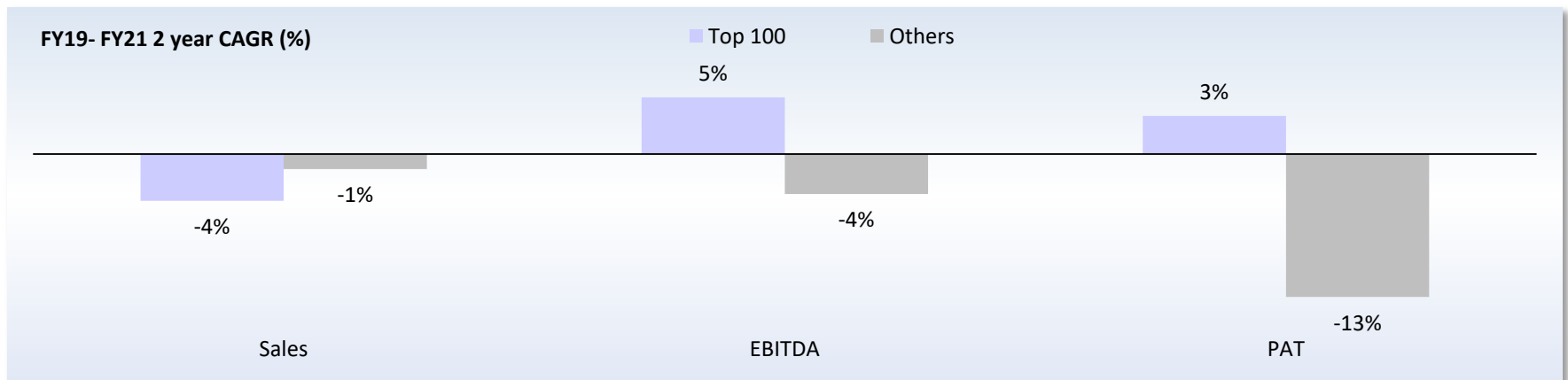
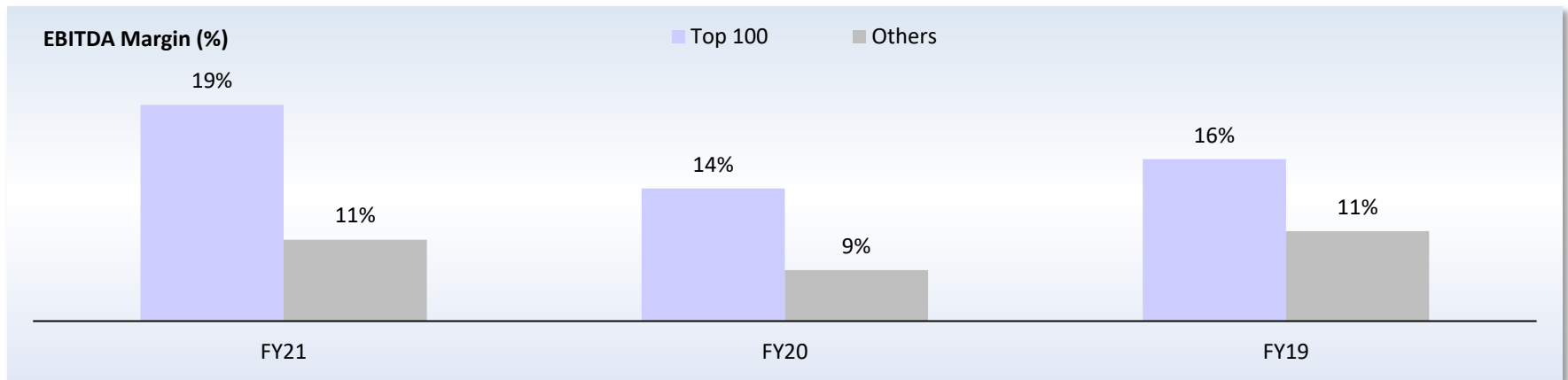
- ❖ The fall in real yields, as a result of decline in 10-year bond yields, and the pick-up in inflation, has driven the U-PF of Bank Nifty.
- ❖ The two shared a near perfect correlation over the years.



Source: Bloomberg, MOFSL. As of 31st Aug'21

Big getting bigger: Top 100 companies' EBITDA margins rise 500bps in FY21

- ❖ From BSE-500 (ex-financial companies), the Top 100 companies (by market cap) have benefitted from the pandemic as they were able to control costs while maintaining pricing power to increase their EBITDA margins and profitability.
- ❖ FY21 EBITDA margins (ex-financials) increased by ~500bps/~300bps in FY20/FY19.

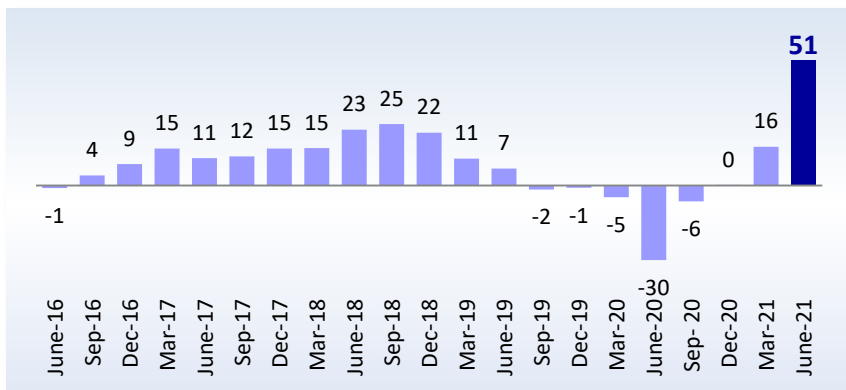


Source: Capitaline, MOFSL. As of 31 Aug'21. BSE500 ex Financial companies

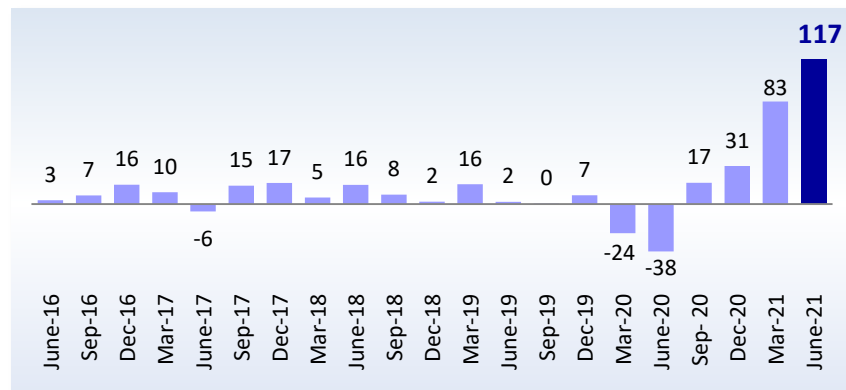
1QFY22 : In line with expectations; cyclicals lead earnings growth

- ❖ 1QFY22 earnings for the MOFSL Universe were largely in-line. Cyclical sectors such as Metals and O&G led earnings growth.
- ❖ For the MOFSL Coverage Universe, sales/EBITDA/PAT increased 51%/50%/117% YoY. Nifty FY22 EPS was unchanged at INR732.

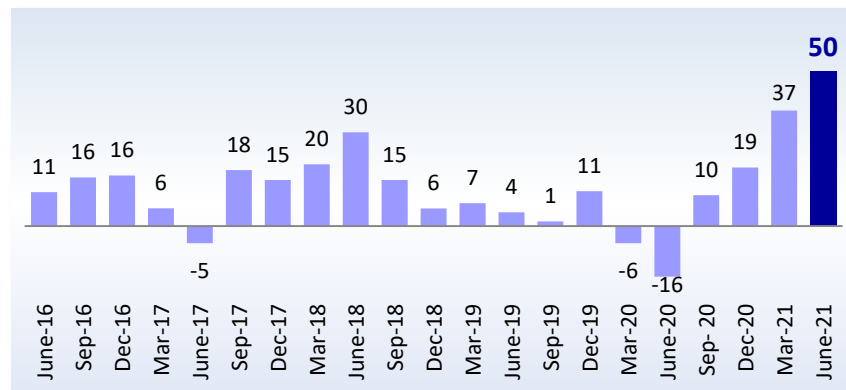
Sales in-line; up 51% YoY (v/s est. 46% YoY)



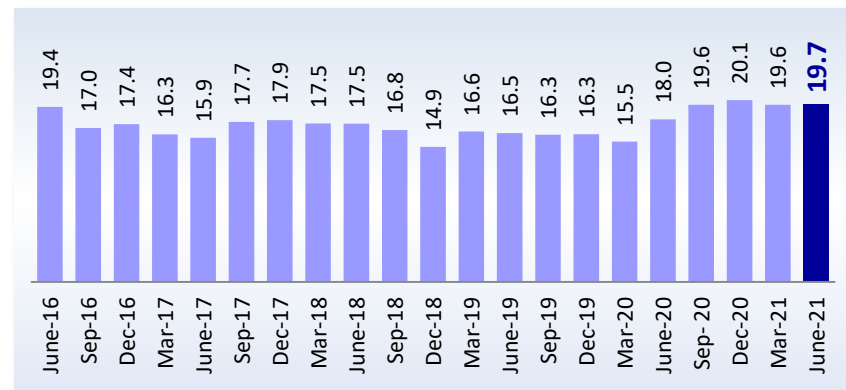
PAT in-line; up 117% YoY (v/s est. 113% YoY)



EBITDA in-line; up 50% YoY (v/s est. 46% YoY)



EBITDA margin (ex-financials) up 170bp YoY to 19.7%

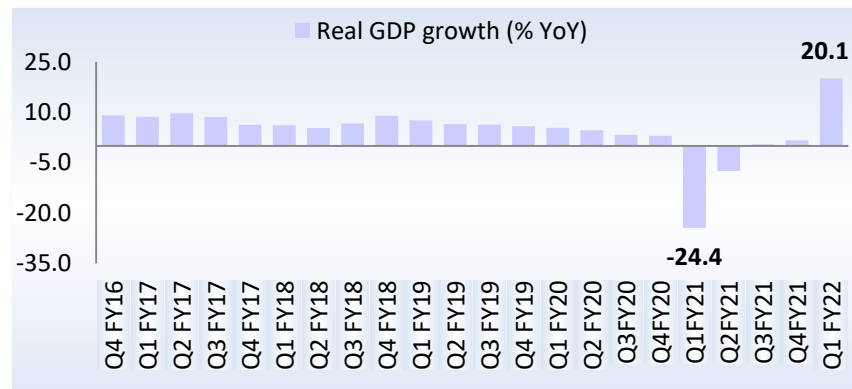


Source: MOFSL, Companies

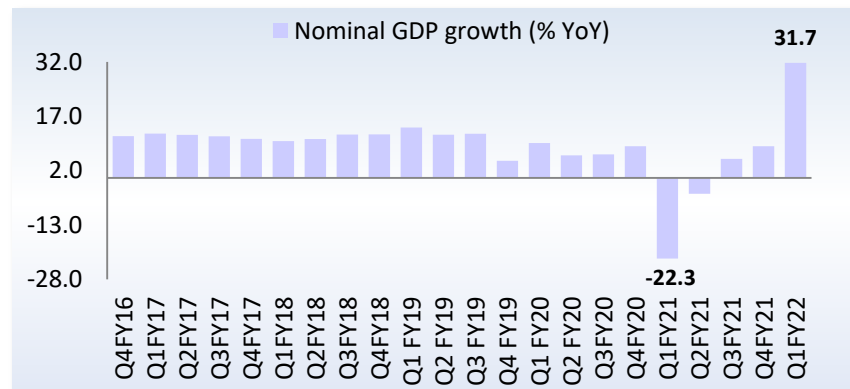
Real GDP growth in-line at 20.1% YoY, aided by low base

- ❖ Real GDP/GVA grew 20.1%/18.8% YoY in 1QFY22 (v/s our forecast and the Bloomberg consensus of 21%/19.6%).
- ❖ Nominal GDP grew 31.7% YoY in 1QFY22, against contraction of 22.3% YoY in 1QFY21.

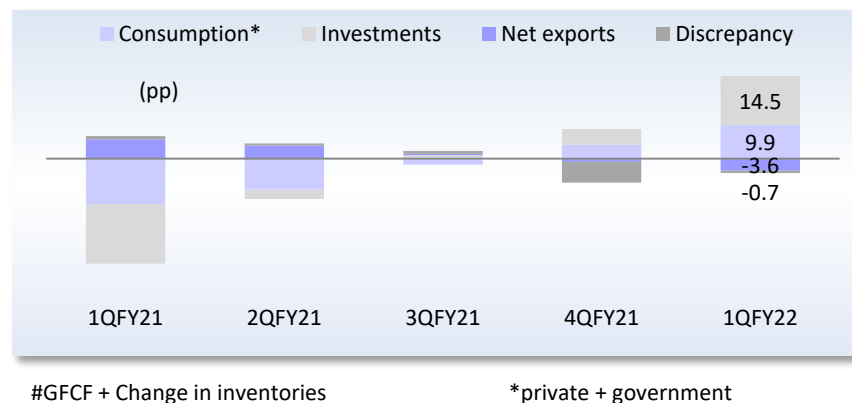
Real GDP up 20.1% YoY in 1QFY22...



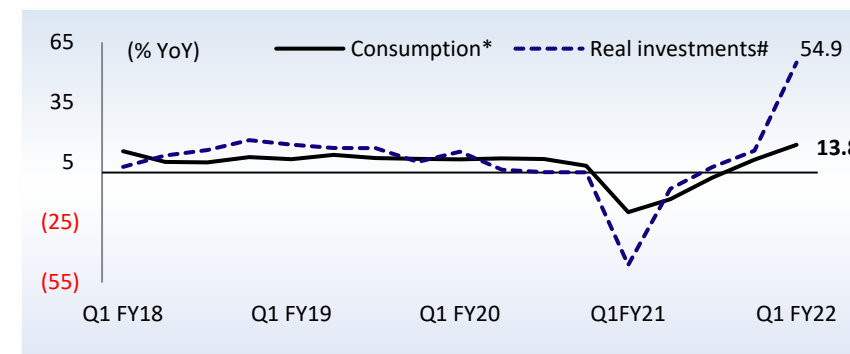
...and nominal GDP 31.7% YoY in 1QFY22



Investment and private consumption the main drivers of sharp growth in GDP in 1QFY22...



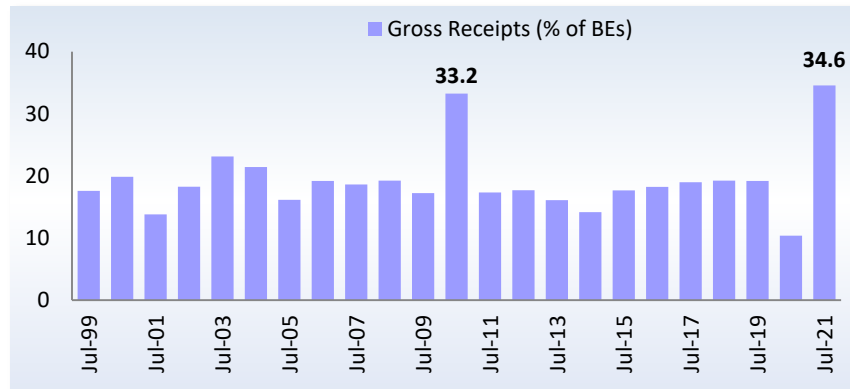
...and real investments grow far higher than total consumption in last quarter



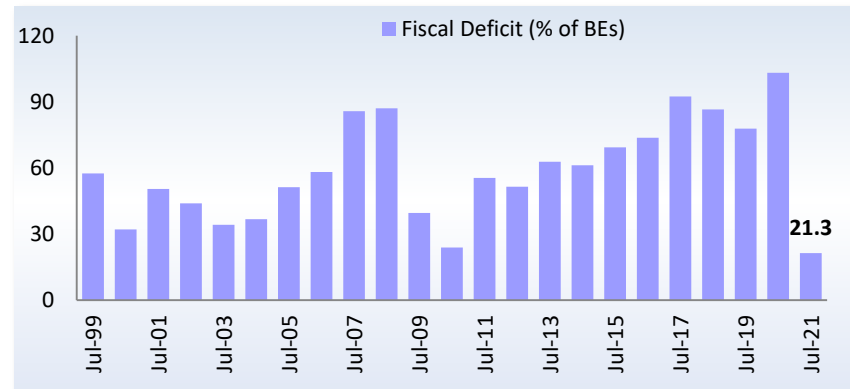
Apr-Jul'21 fiscal deficit at 21% of BE; rainfall in deficit over June-Aug'21

- ❖ Government gross receipts as a percentage of BE stood at the highest level of 35% of BE. The fiscal deficit for the first four months was just 21.3% of BE.
- ❖ The monsoon has been 9% below normal due to a rainfall deficit in July'21 and Aug'21. Kharif sowing, however, is near normal.

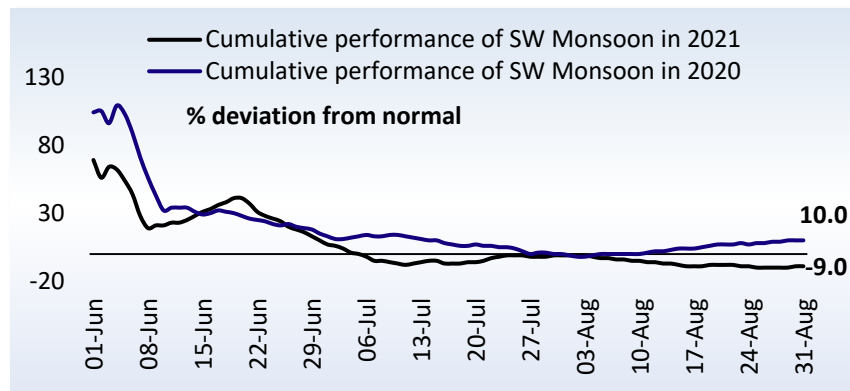
Govt gross receipts ~35% of FY22BE, marginally higher than previous peak of 33.2% in FY11



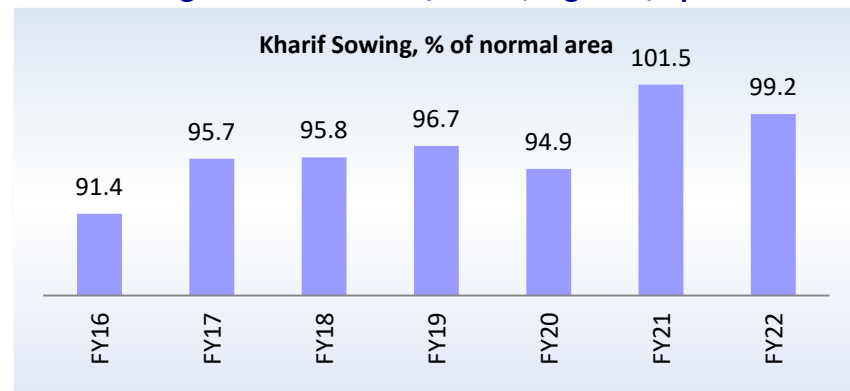
Fiscal deficit in first four months at just 21.3% of FY22BE



Cumulative rainfall in 9% deficit in first three months of FY22 southwest monsoon season



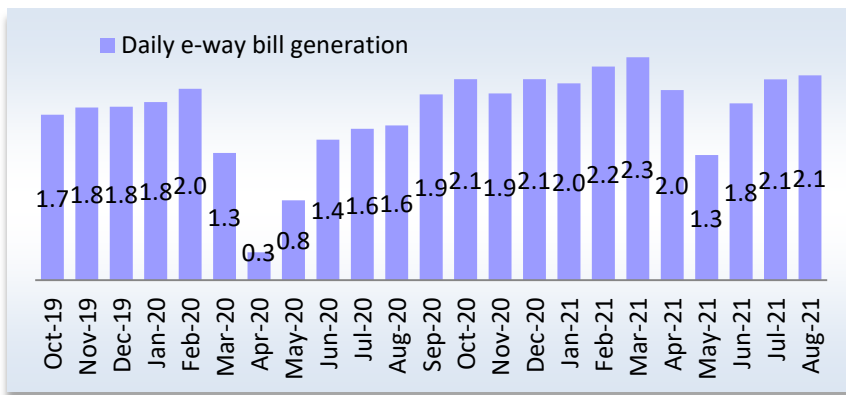
Kharif sowing comes in lower v/s FY21, higher v/s pre-COVID



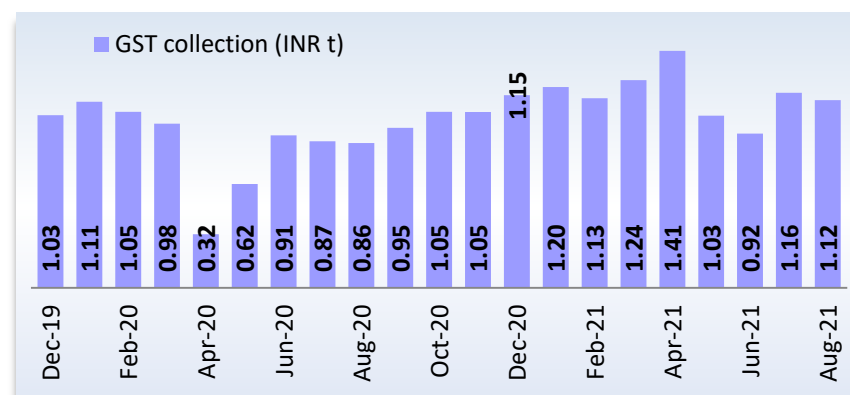
GST collections down 4% MoM; PMI declines to 52.3

- ❖ Daily e-way bill generation remains flat MoM at 2.1m/day. GST collections are down 4% MoM to 1.12t.
- ❖ Fertilizer sales are flat YoY at 6.9m tn. The Manufacturing PMI slipped to 52.3 in Aug'21 (from 55.3 in July'21).

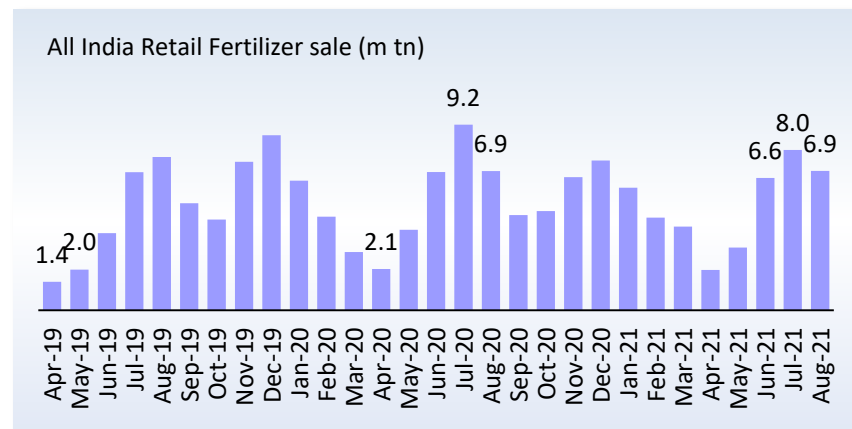
Daily e-way bill generation flat MoM at 2.1m/day



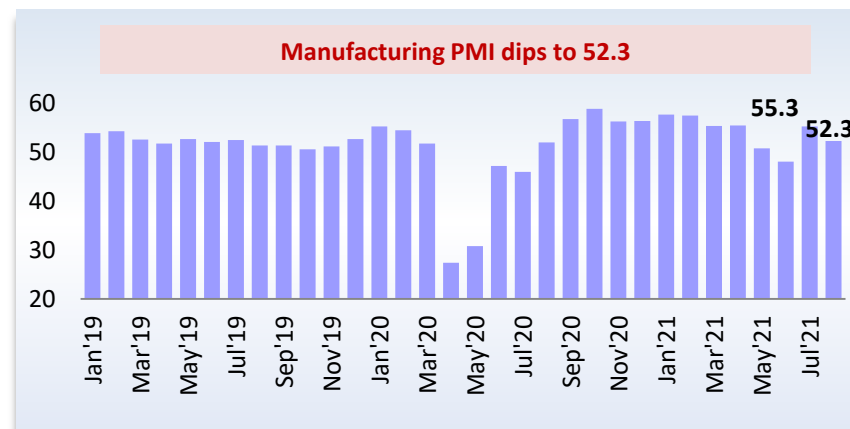
GST collections down 4% MoM



Fertilizer sales flat YoY at 6.9m tn



Manufacturing PMI dips to 52.3

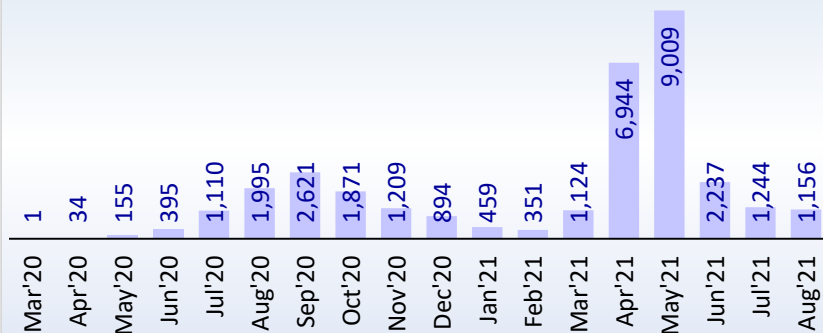


Source: MOFSL, Ministry of Commerce

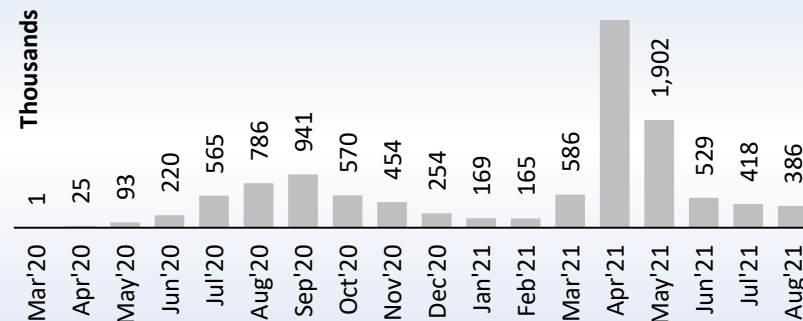
Active COVID-19 cases decline 8% MoM; 650m vaccines administered

- ❖ Active cases declined 8% in Aug'21 as new cases declined 7% MoM.
- ❖ The pace of vaccination increased to 8.4M doses/day in the last seven days of Aug'21. More than 680m doses have been administered till 4th Sep'21.

New cases on a monthly basis (in thousands)

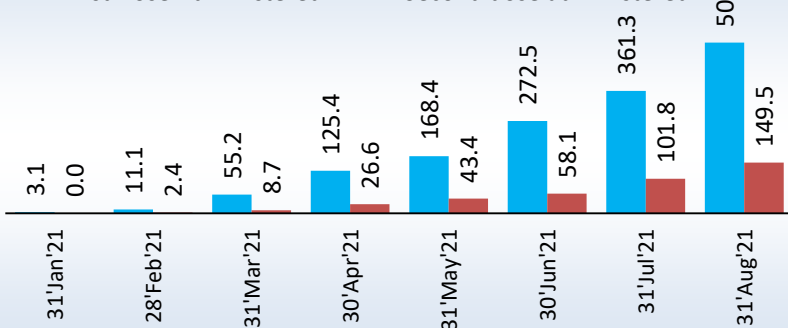


Total Active Cases (th)

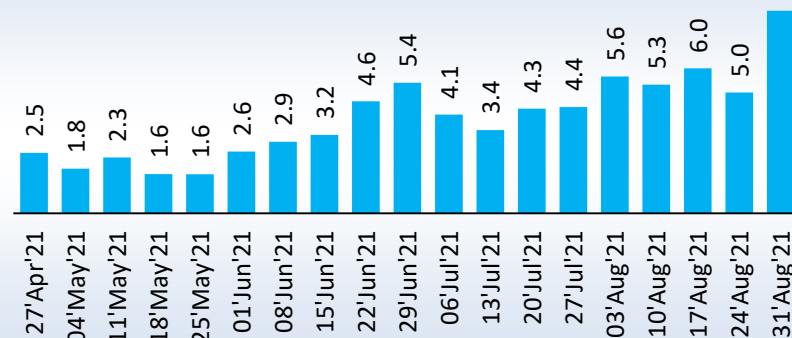


Total doses administered (in mn)

First Dose Administered Second dose administered



Vaccination 7 day mov. Average



Source: Ministry of Health and Family Welfare, ourworldindata.org. MOFSL

Nifty composition | IT weight highest since 2006 | Auto lowest since 2008

- ❖ The weight of IT in the Nifty reached multi-year highs of 18%.
- ❖ Auto remained a laggard as its weight dropped 80bps (from Dec'20) to 4.6%, the lowest since Dec'08.
- ❖ Cement weight continues to increase and is at 2.5%, the highest since 2016.

Sector	Weight in the Nifty (%)					
	Dec'04	Dec'08	Dec'12	Dec'19	Dec'20	Aug'21
Automobiles	6.7	2.5	8.8	5.7	5.4	4.6
Banks - Private	4.7	5.0	16.9	27.8	24.7	23.0
Banks - Public	5.8	5.4	4.7	2.6	1.8	2.2
NBFC + Insurance	2.1	2.3	7.9	11.6	12.3	12.4
Capital Goods	4.0	7.7	5.9	3.2	2.6	2.7
Cement	2.8	1.7	4.2	1.5	2.2	2.5
Consumer	7.8	6.5	12.3	10.2	10.4	10.0
Healthcare	6.3	2.6	5.0	2.1	3.6	3.5
Metals	8.2	4.8	3.8	2.4	2.0	3.3
Oil and Gas	27.1	24.5	12.3	12.5	12.5	11.4
Reliance	8.3	10.6	7.4	9.8	10.7	9.8
Telecom	6.3	11.6	2.0	2.2	2.0	2.1
Technology	14.5	9.0	11.4	12.8	16.3	18.0
Utilities	1.9	13.3	4.5	2.8	2.1	2.0
Miscellaneous	2.0	3.3	0.5	2.6	2.1	2.4
Nifty	100	100	100	100	100	100

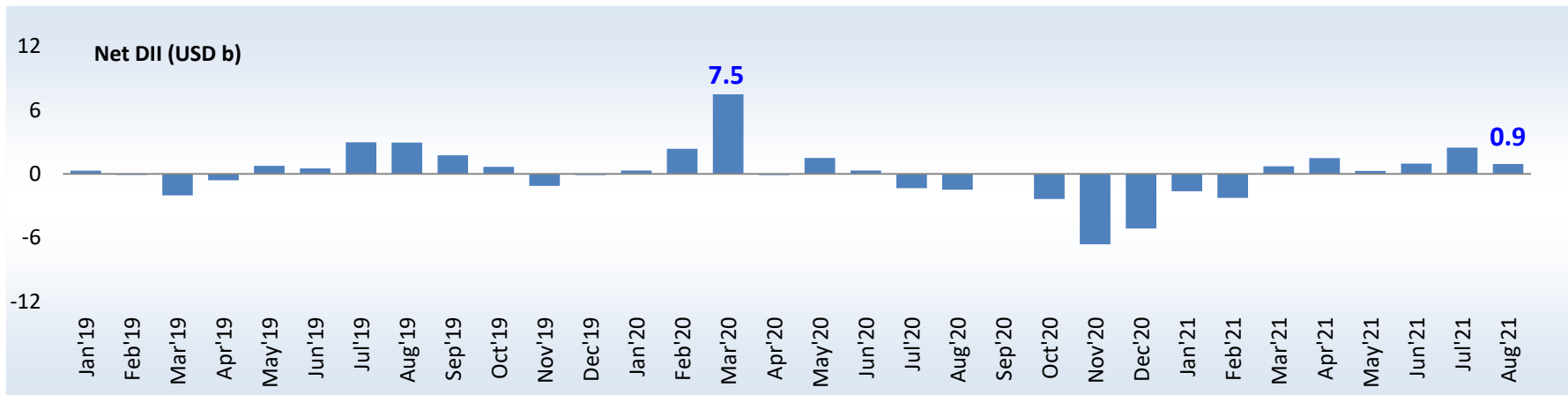
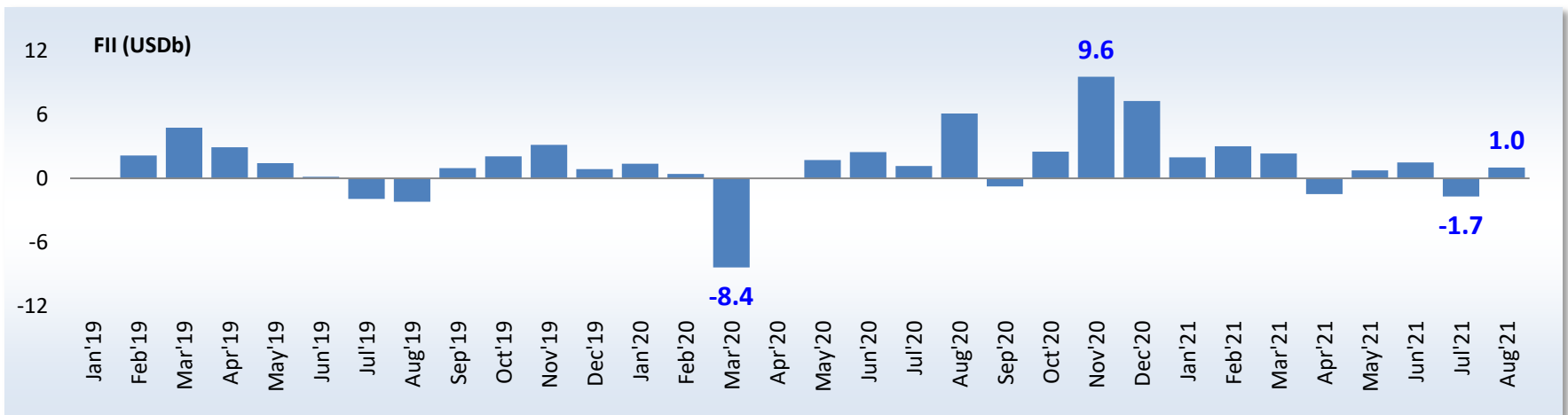
Technology weight
up 170bp since
Dec'20

Autos weight drops
below 5% to 4.6% -
the lowest since
Dec'08

Cement weight has
increased 30bps
(since Dec'20) to
2.5%

FII/DII post net inflows for Aug'21

- ❖ FII net inflows stood at USD1.0b in Aug'21, a reversal from the USD1.7b outflow in Jul'21.
- ❖ DII net inflows stood at USD0.9b in Aug'21, the sixth consecutive month of net inflows.

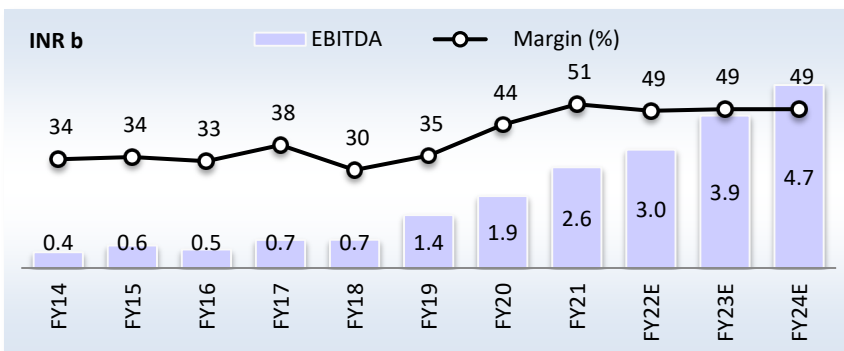


Key reports from MOFSL's Research Desk

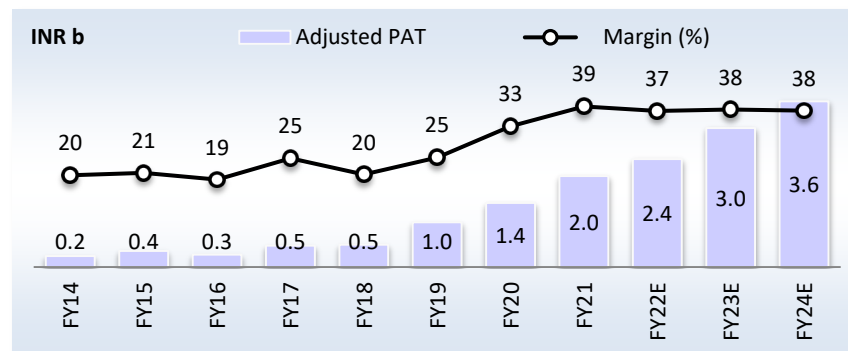
Clean Science and Technology: Novel chemistry at play ([Report link](#))

- ❖ CSTL has emerged as the global leader in most of its product categories - on the back of niche product offerings catering to polymer inhibitors / super-absorbents, anti-oxidants for the Food/Feed industry, pharma, home, and personal care.
- ❖ CSTL is driven by its strong R&D capabilities in both plant technological development as well as process innovation. This led to the gross margin expanding to 76% in FY21 from 62% in FY16 (the EBITDA margin expanded from 33% to 50.5% over FY16-21).

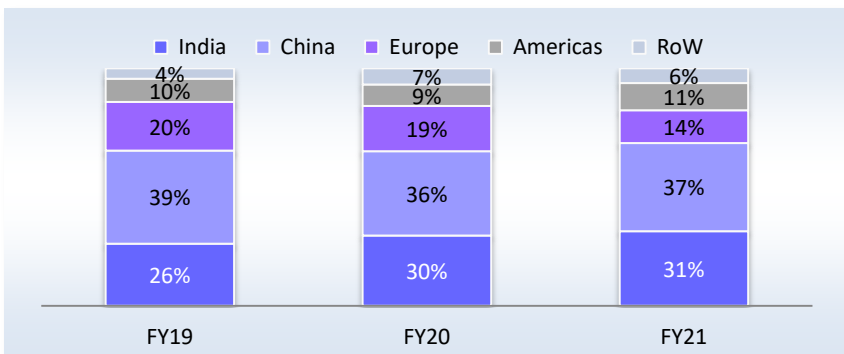
EBITDA margins to remain robust as the company continues to improve product yield and processes...



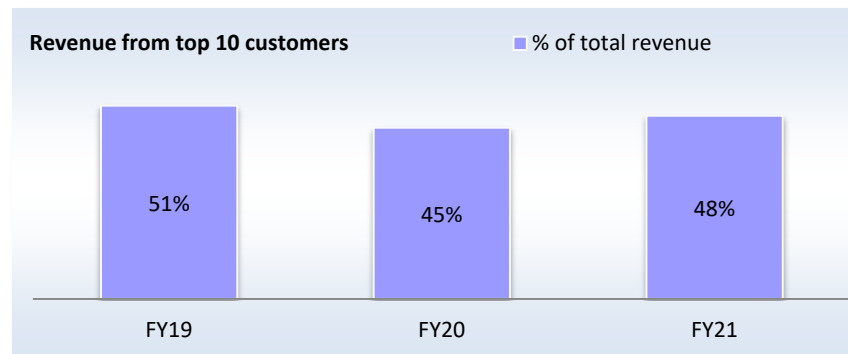
...with the addition of capacity in FY22 (Unit-III) and new range of products in Unit-IV (over next two years)



CSTL's geographical revenue mix – China the biggest market with ~37% contribution in FY21



Percentage mix of Top 10 customers reducing; to fall further after commissioning of Unit-IV

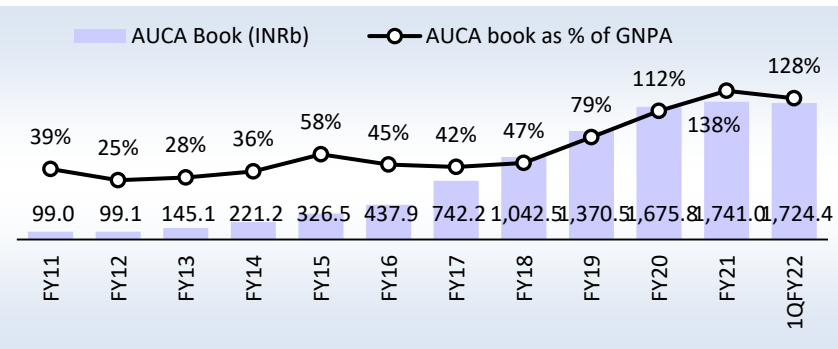


Source: MOFSL. Refer to our note 'Clean Science and Technology | Initiating Coverage (Novel chemistry at play)

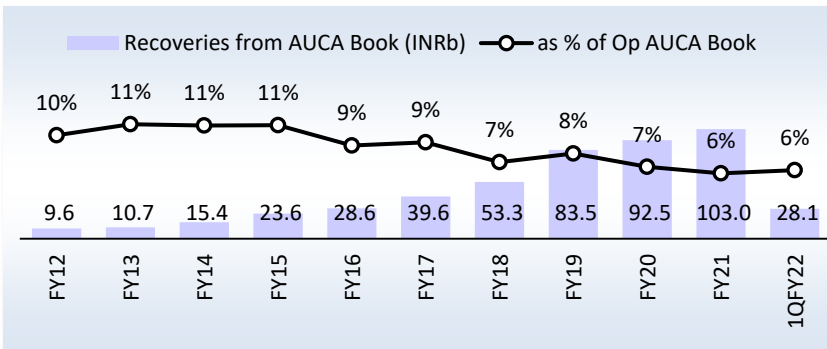
SBI: PPOP conversion to PAT gaining traction ([Report link](#))

- ❖ SBIN has demonstrated a strong improvement in asset quality, with GNPA's declining 43% over the past three years. PCR, on the other hand, has increased to 68% currently from 40% four years ago.
- ❖ SBIN appears well-positioned to report a strong uptick in earnings, led by moderation in credit costs from FY22. During FY19-21, SBIN has shown remarkable improvement in asset quality; NPLs have reduced to 1.8% currently from 5.7% in FY18.

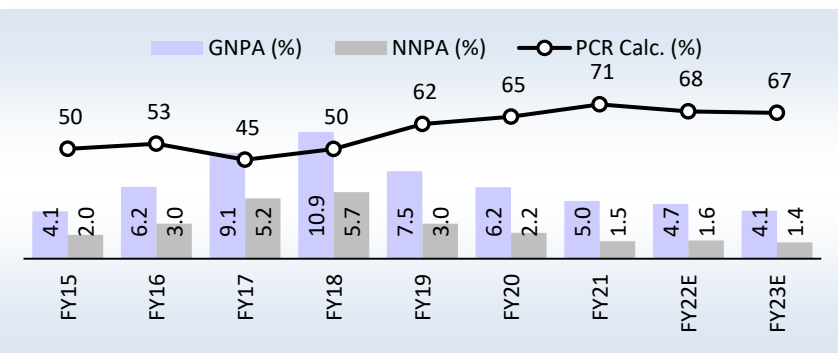
SBIN carries technically written off pool of INR1.72t



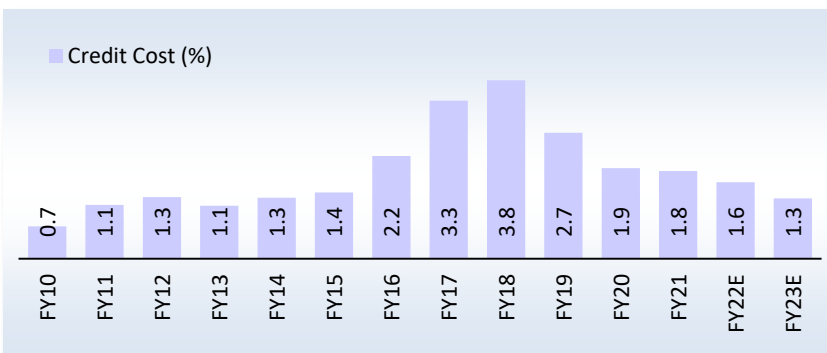
Strong recoveries from AUCA book



Coverage ratio improves ~1,750bp in past three years to ~68% as of 1QFY22



Credit cost sees steady moderation; to be key driver of earnings recovery

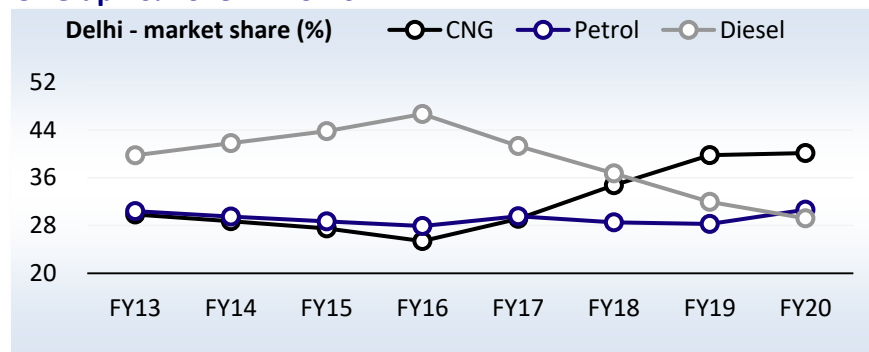


Source: MOFSL, Refer to our note – SBI: – PPOP conversion to PAT gaining traction

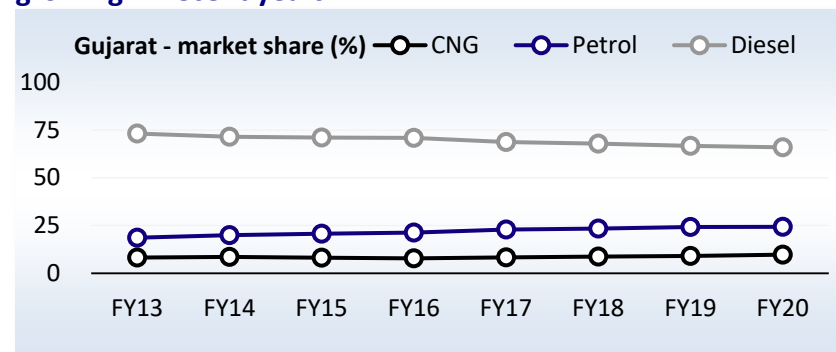
OIL & GAS: From 8,000ers to a mushroom land ([Report link](#))

- ❖ With ~90% market share in marketing infrastructure, such as pipelines, terminals, and depots, OMCs command market share of 90% in petrol and 89% in diesel across India.
- ❖ However, with the entry of electric vehicles (EVs), these conventional players (OMCs and CGDs) stare at a future where they would be just me-too players. As the transportation fuel industry aligns with new-age solutions of EVs and hydrogen fuel cells, the nature of the new-age refueling solutions - with almost no storage requirement and the absence of much critical safety concerns associated with highly flammable petrol, diesel and CNG - would decimate the oligopoly of OMCs and CGDs.

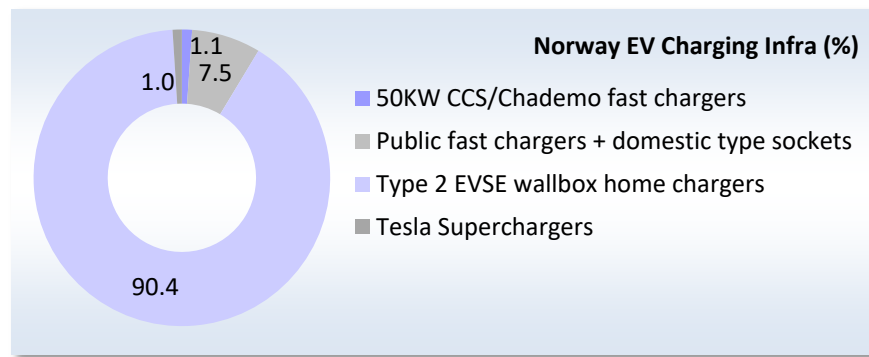
Share of diesel in total energy mix plummets in Delhi; share of CNG up 10% over FY13-20



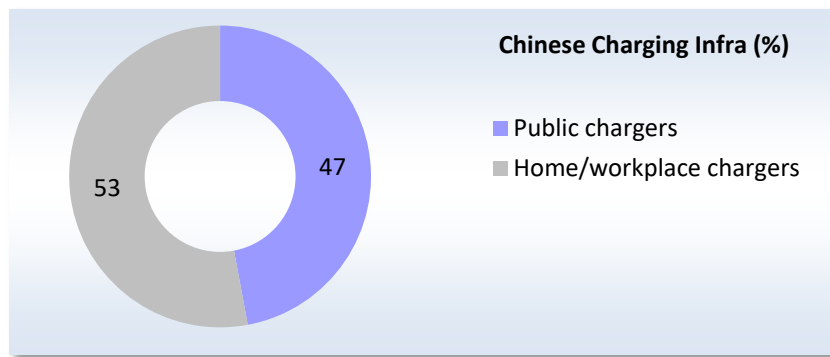
Share of diesel continues to fall for Gujarat; share of CNG growing in recent years



In Norway, more than 90% of EV chargers are home chargers...



...similar to China, with over 50% of EV chargers being home/workplace chargers



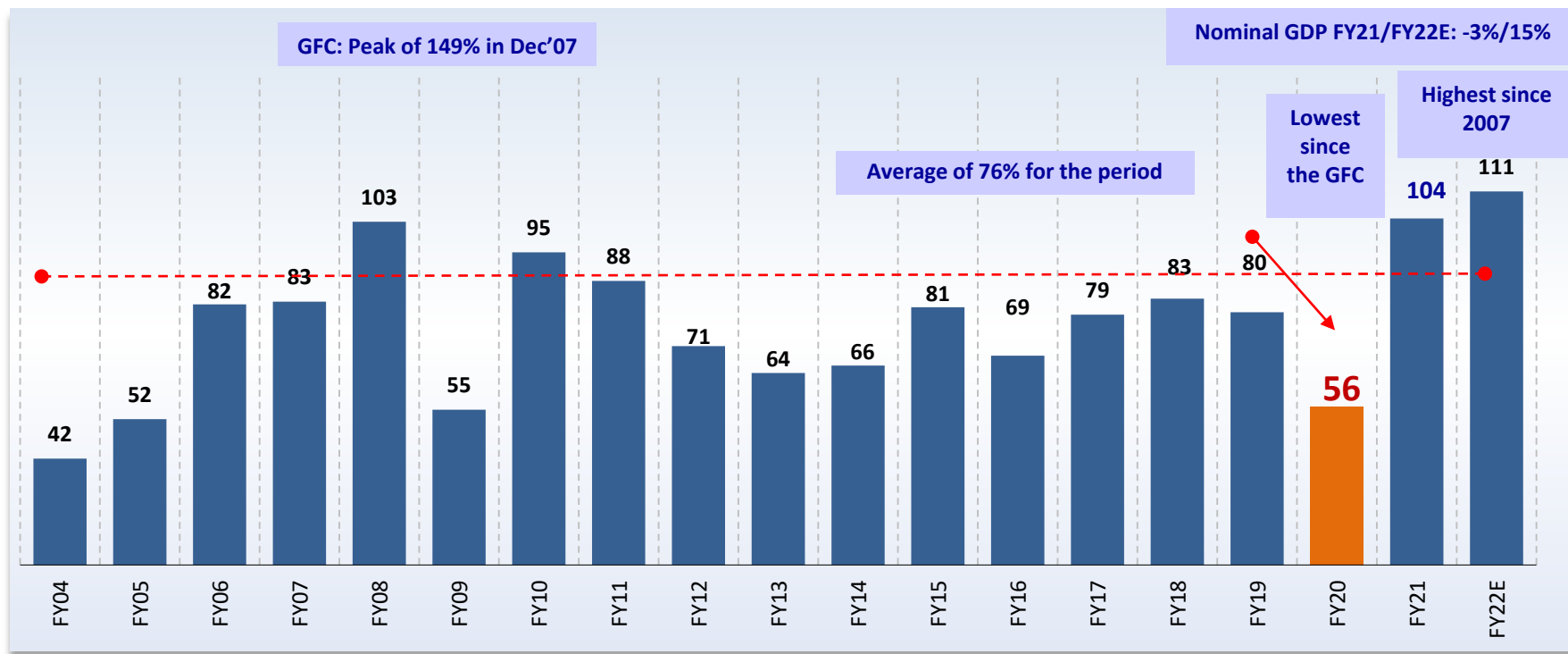
Source: MOFSL, Refer to our note – From 8,000ers to a mushroom land

Valuations: Key observations

Market capitalization-to-GDP ratio the highest since 2007

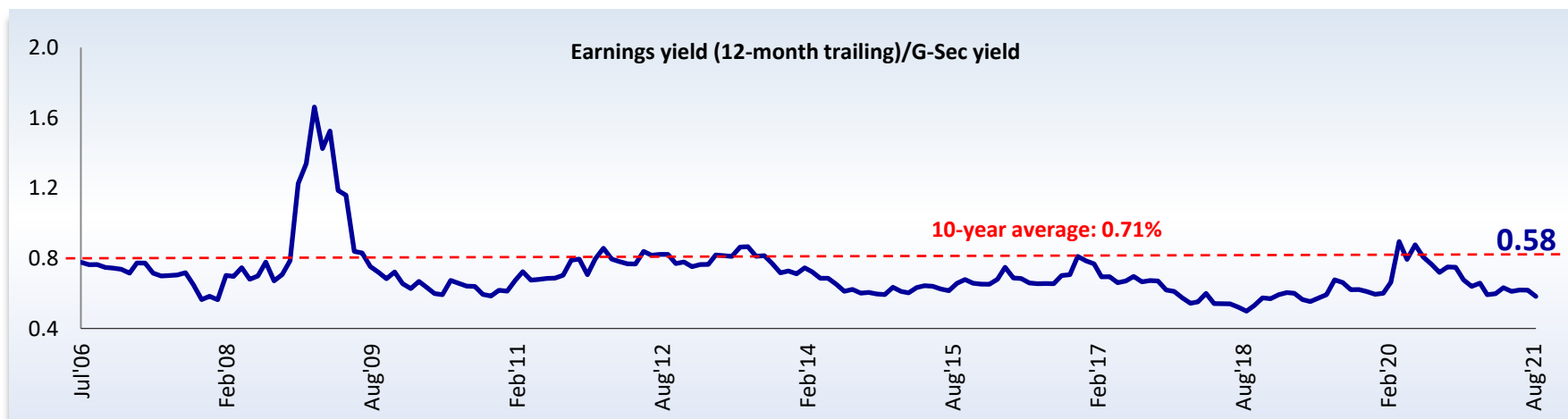
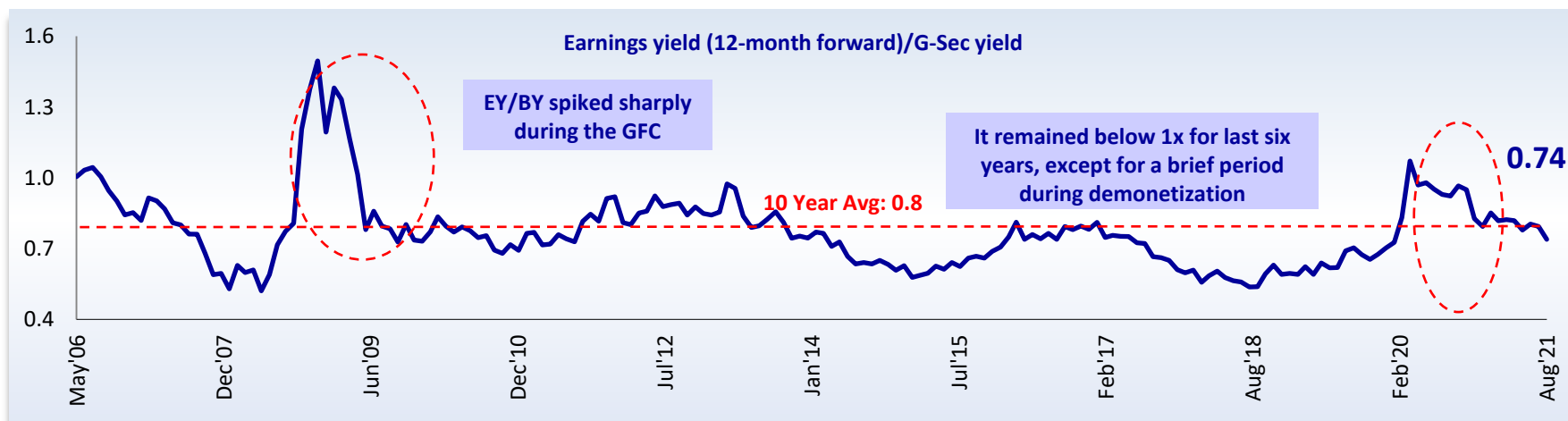
- ❖ The market capitalization-to-GDP ratio has been volatile. It fell to 56% (FY20 GDP) in Mar'20 from 79% in FY19 and has currently rebounded to 111% (FY22E GDP) – above LTA of 76%. It is the highest since 2007.
- ❖ The ratio hit its peak of 149% in Dec'07 during the CY03–08 bull-run.

Market capitalization-to-GDP ratio (%)



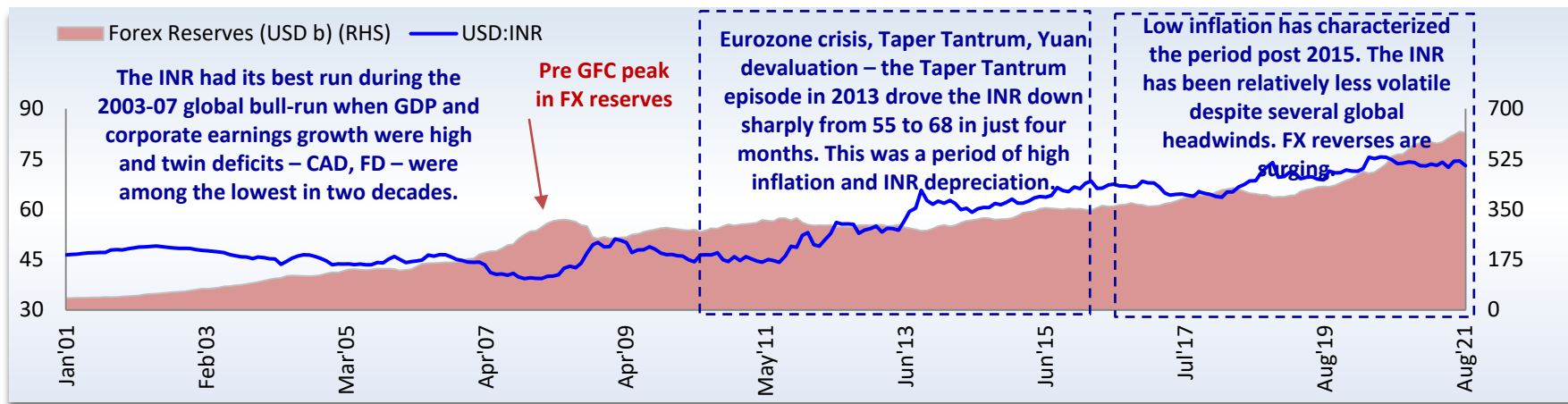
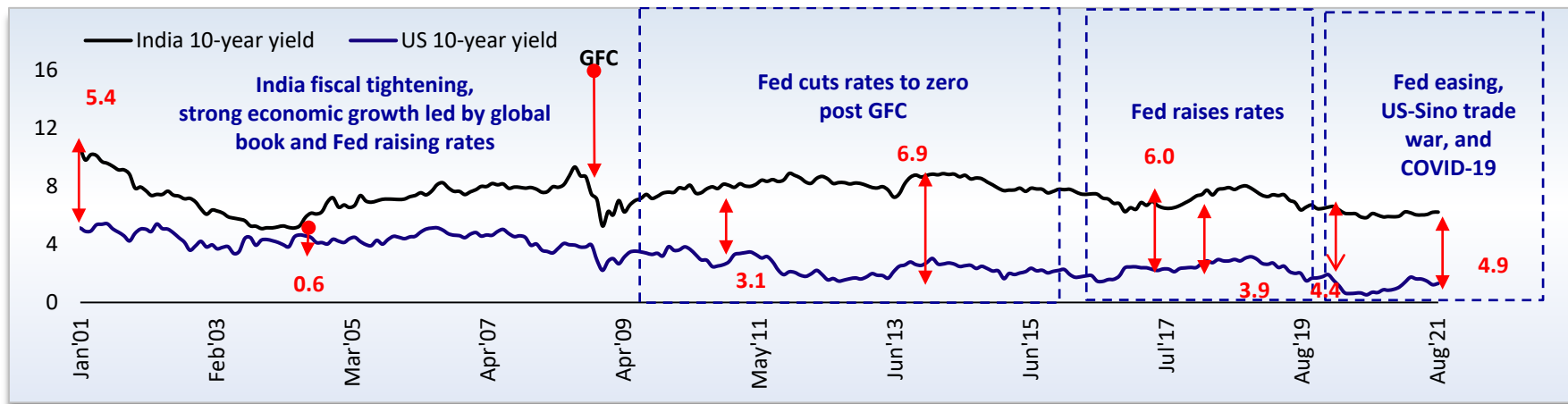
10-year G-Sec stable at ~6.2%; earnings estimates unchanged

- ❖ Yield on the 10-year G-Sec is currently hovering at ~6.2%, while July inflation came in at 5.6% YoY.
- ❖ The EY/BY ratio is below its LTA on both forward and trailing basis.



Spreads stable v/s US 10-year bond; FX reserves at USD617b

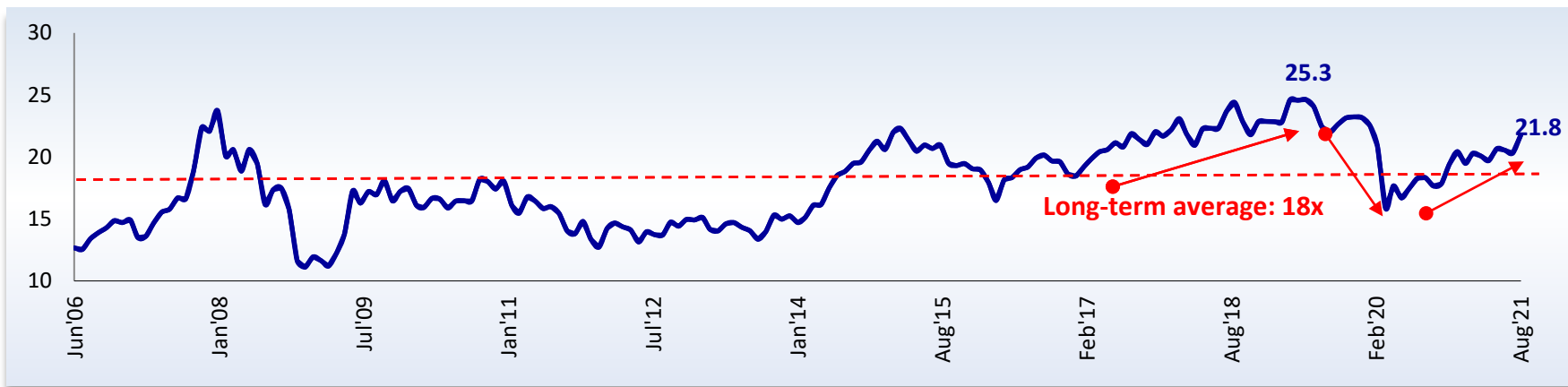
- ❖ Yield on the US 10-year bond is trading at 1.3%. Indian 10-year yield is trading at ~6.2%, resulting in spreads (v/s the US 10-year yield) at 490bps in Aug'21.
- ❖ On the currency front, the INR appreciated 1.9% in (MoM) v/s the USD. FX reserves declined by USD3b to USD617b. Aug'21



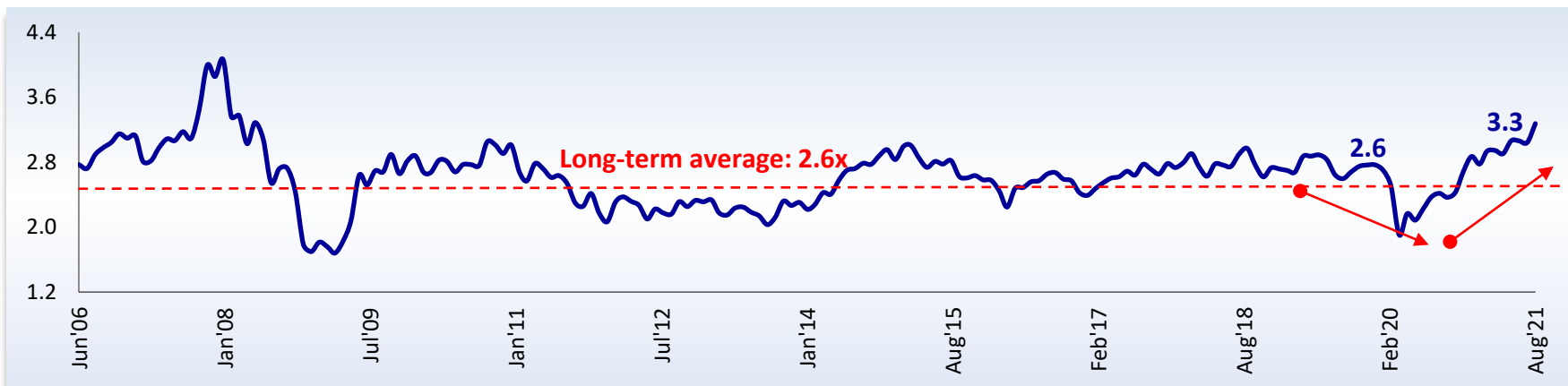
Valuations: Nifty forward P/E and P/B at a premium to long-term mean

- ❖ Nifty 12-month forward P/E of 21.8x is at a premium of 21% v/s its LTA of 18.0x.
- ❖ At 3.3x, 12-month forward P/B for the Nifty is at a 15% premium to its historical average of 2.6x.

12-month forward Nifty P/E (x)



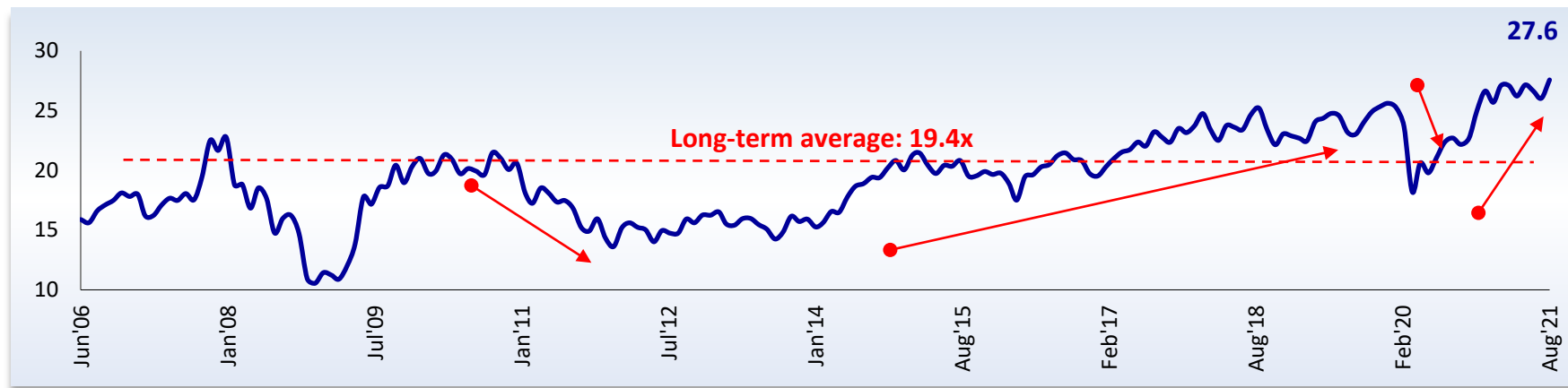
12-month forward Nifty P/B (x)



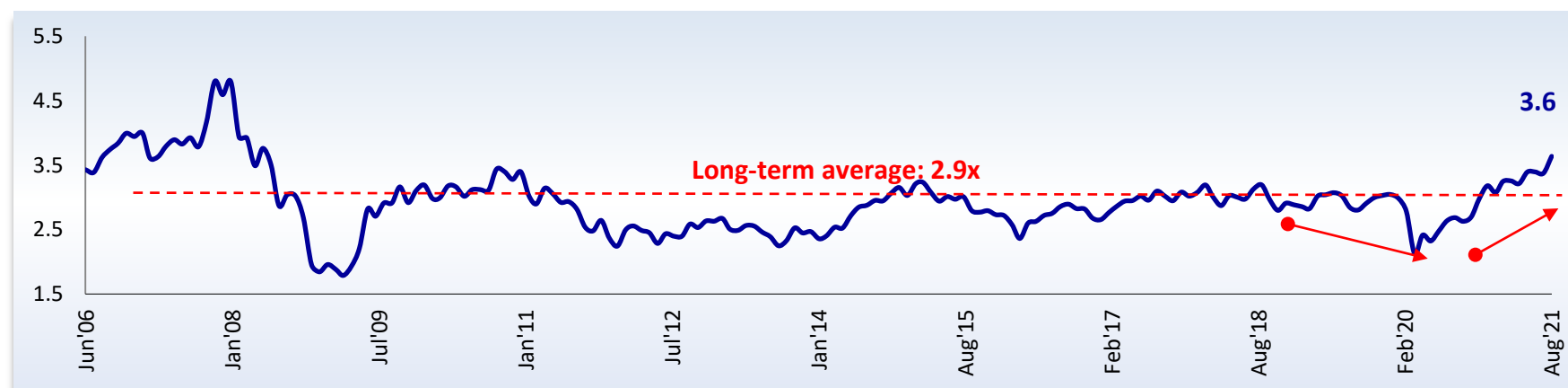
Valuations | Nifty trailing P/E at 42% premium to LPA

- ❖ 12-month trailing P/E for the Nifty stands at ~27.6x, 42% higher than its LTA.
- ❖ At 3.6x, 12-month trailing P/B for the Nifty stands at 23% above its historical average of 2.9x.

12-month trailing Nifty P/E (x)

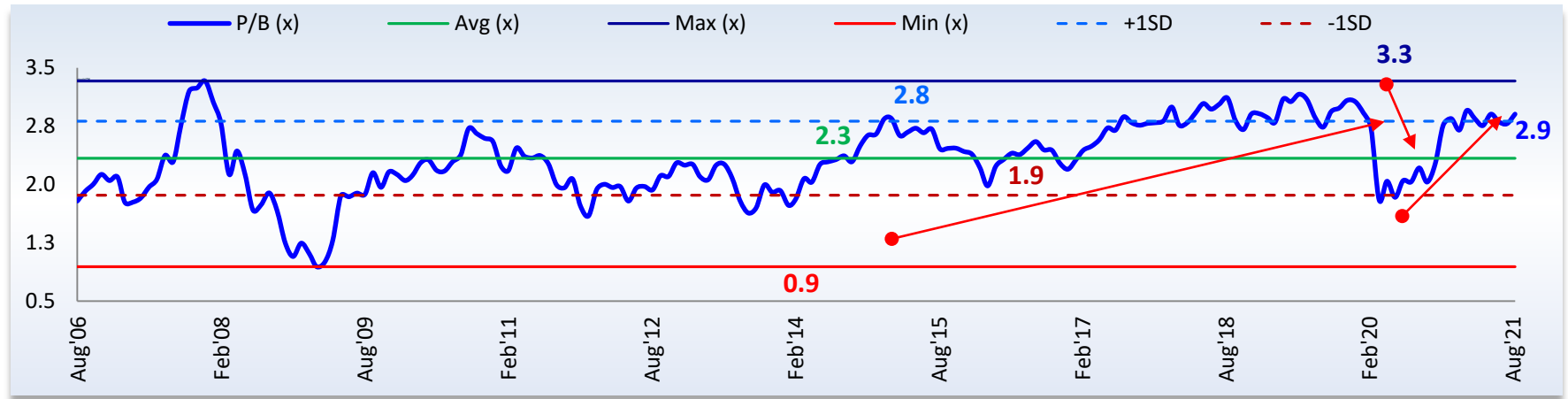


12-month trailing Nifty P/B (x)

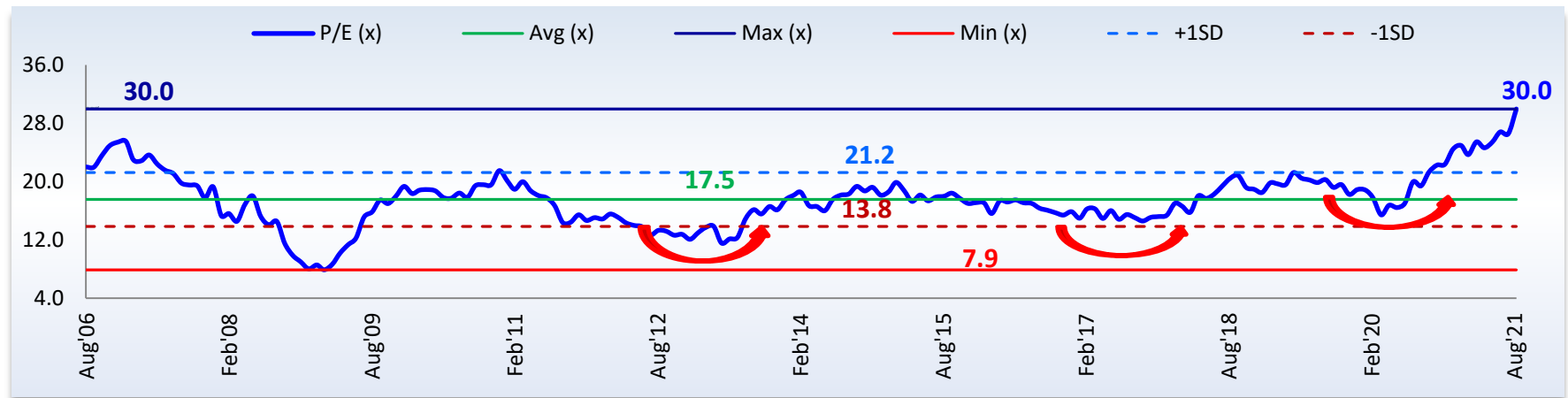


Sectoral valuations: IT at 15-year high; Private Banks at +1SD

Valuations for Private Banks at +1SD

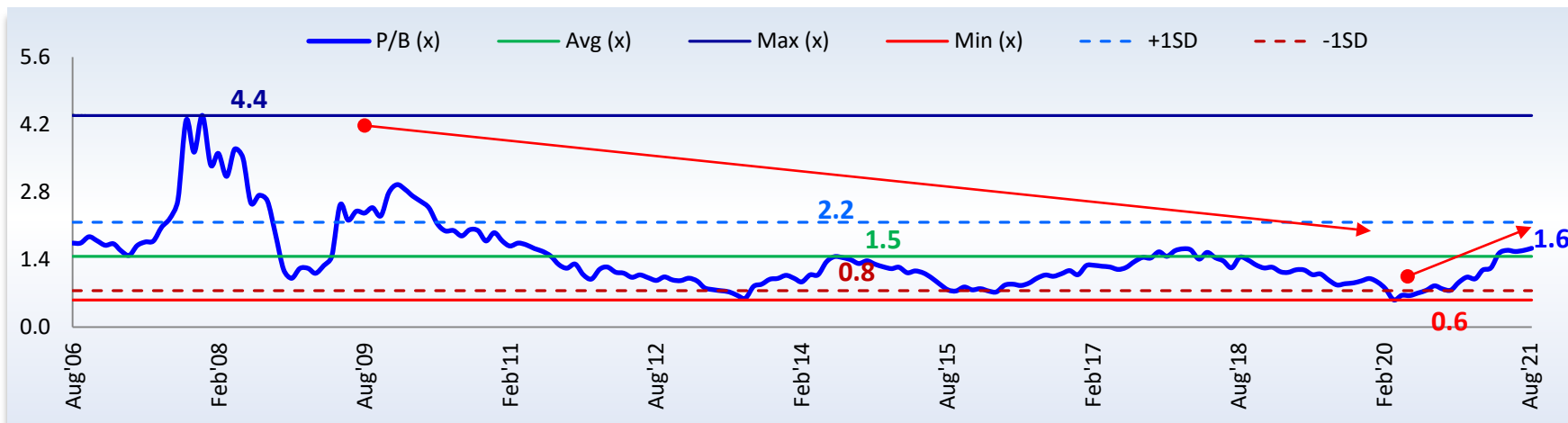


Technology trading at 15-year high valuation multiple

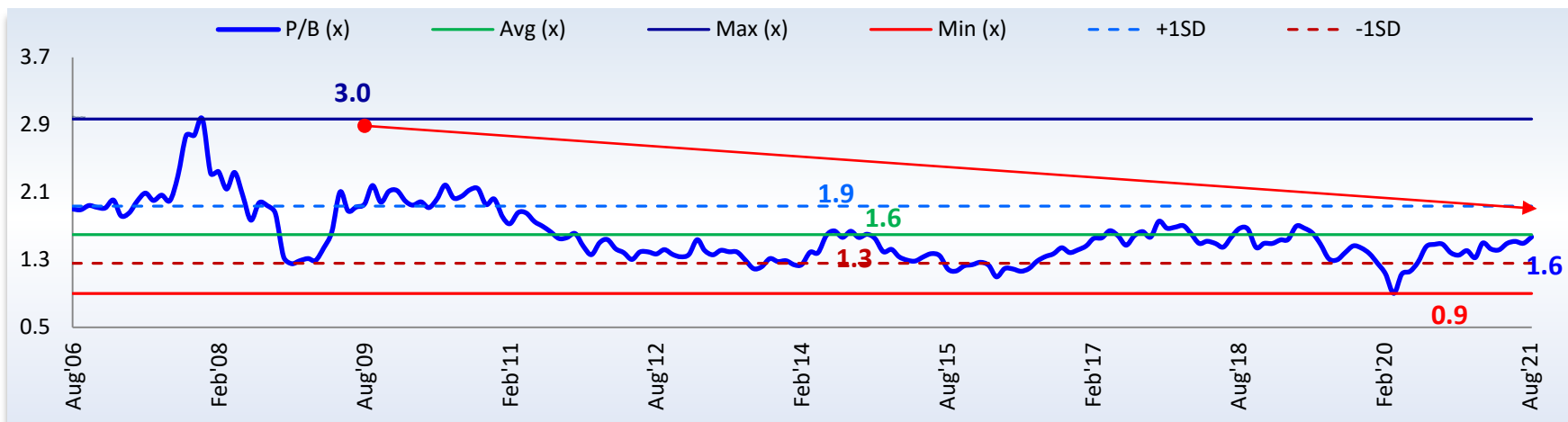


Sectoral valuations: Metals and Oil & Gas trading at LTA

Metals: Valuations near LTA

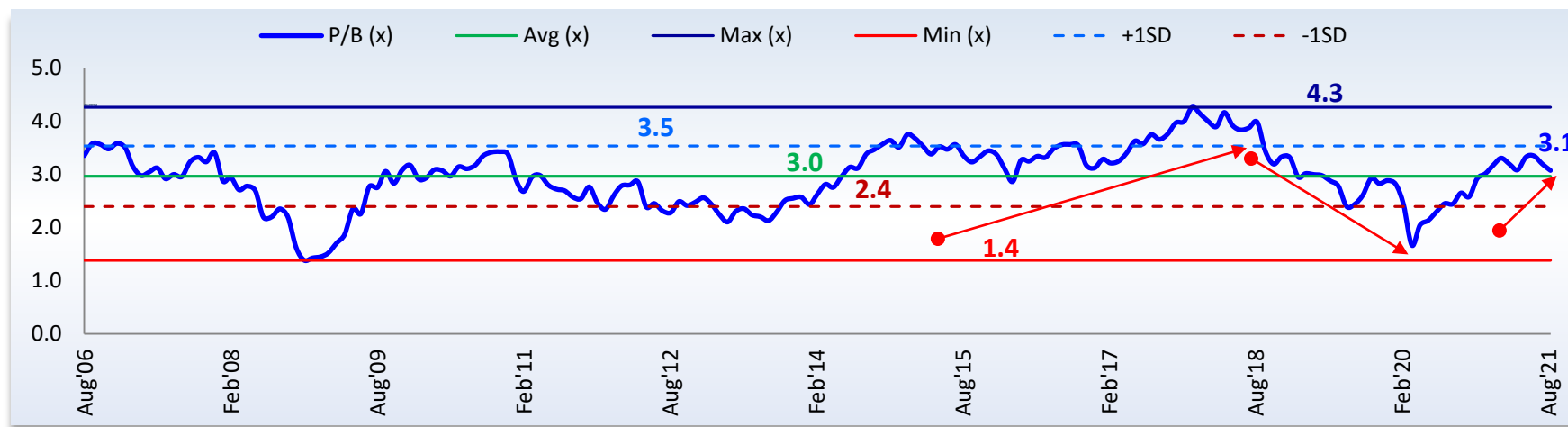


Oil & Gas: Valuation trend

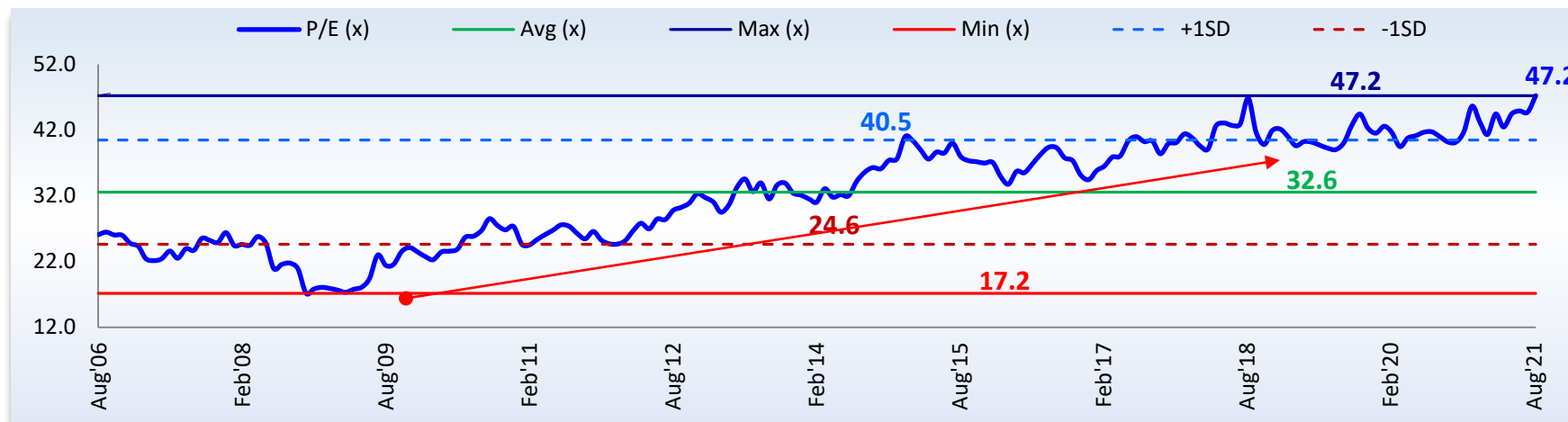


Sectoral valuations: Consumer at 15-year high; Autos near LTA

Auto valuations at LTA



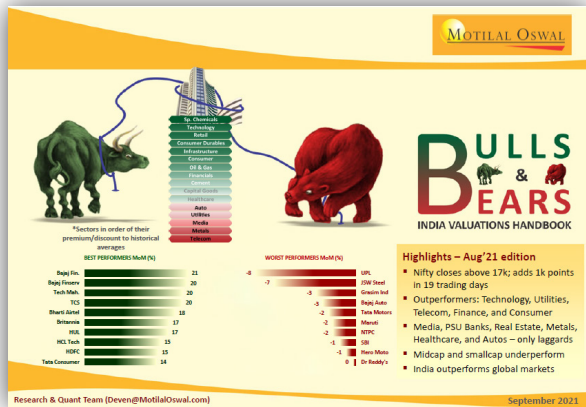
Valuations of Consumer Staples at peak valuations



Top ideas

Company	Mcap (USD b)	EPS (INR)			EPS CAGR	P/E (x)		P/B (x)		RoE (%)	
		FY21	FY22E	FY23E	FY21-23, %	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Preferred largecap stocks											
Infosys	106	45.6	52.6	65.6	20.0	32.3	25.9	10.3	9.8	30.6	39.0
Hind. Unilever	90	34.8	38.4	47.5	16.9	72.0	58.2	13.7	13.7	19.0	23.6
ICICI Bank	69	24.2	30.8	39.0	26.9	23.6	18.6	3.0	2.6	13.8	15.3
St Bk of India	53	25.1	39.0	50.4	41.7	11.1	8.6	1.3	1.1	13.1	14.6
HCL Technologies	44	43.8	49.3	58.9	16.0	23.8	19.9	4.9	4.5	21.1	23.6
UltraTech Cem.	31	190.4	237.5	305.7	26.7	33.4	25.9	4.3	4.0	14.5	16.4
Titan Company	24	11.0	17.8	29.9	64.7	113.4	67.5	21.6	19.2	20.0	30.1
Divi's Lab.	19	75.6	103.5	135.4	33.9	50.4	38.5	12.3	10.1	26.8	28.8
Godrej Consumer	16	17.3	18.9	22.7	14.7	59.2	49.2	11.5	10.9	20.0	22.8
SBI Cards	14	10.5	17.7	29.4	67.5	62.7	37.7	13.4	10.1	23.6	30.5
S A I L	7	13.1	37.0	24.9	38.1	3.3	4.9	0.9	0.8	30.0	17.2
Preferred midcap stocks											
Cholaman.Inv.&Fn	6.5	18.5	21.5	29.4	26	26.5	19.4	4.2	3.5	17.0	19.7
L&T Technology	5.9	62.8	88.3	116.1	36	49.2	37.4	11.2	9.4	24.7	27.4
Max Financial	5.1	11.0	14.1	18.0	28	75.4	59.3	3.3	2.7	18.8	19.9
Deepak Nitrite	4.3	56.9	69.4	78.2	17	33.8	30.0	10.2	7.9	34.4	29.6
J K Cements	3.7	91.0	108.6	133.1	21	32.2	26.3	6.1	5.1	20.6	21.2
Endurance Tech.	3.2	36.0	48.6	64.9	34	33.2	24.8	5.6	4.8	18.0	21.0
Clean Science	2.3	18.7	22.2	28.5	24	73.1	56.8	23.3	17.3	36.8	34.9
Aditya Birla Fashion	2.3	-7.1	-3.0	0.0	NM	NM	NM	9.9	9.9	-13.1	0.0
Orient Electric	0.9	5.6	6.5	8.7	24	50.7	37.7	12.7	10.3	25.0	27.2
Solara Active Pharma	0.8	45.0	82.4	103.4	52	20.0	16.0	3.1	2.6	23.1	24.0

Quant Research & India Strategy Gallery



Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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